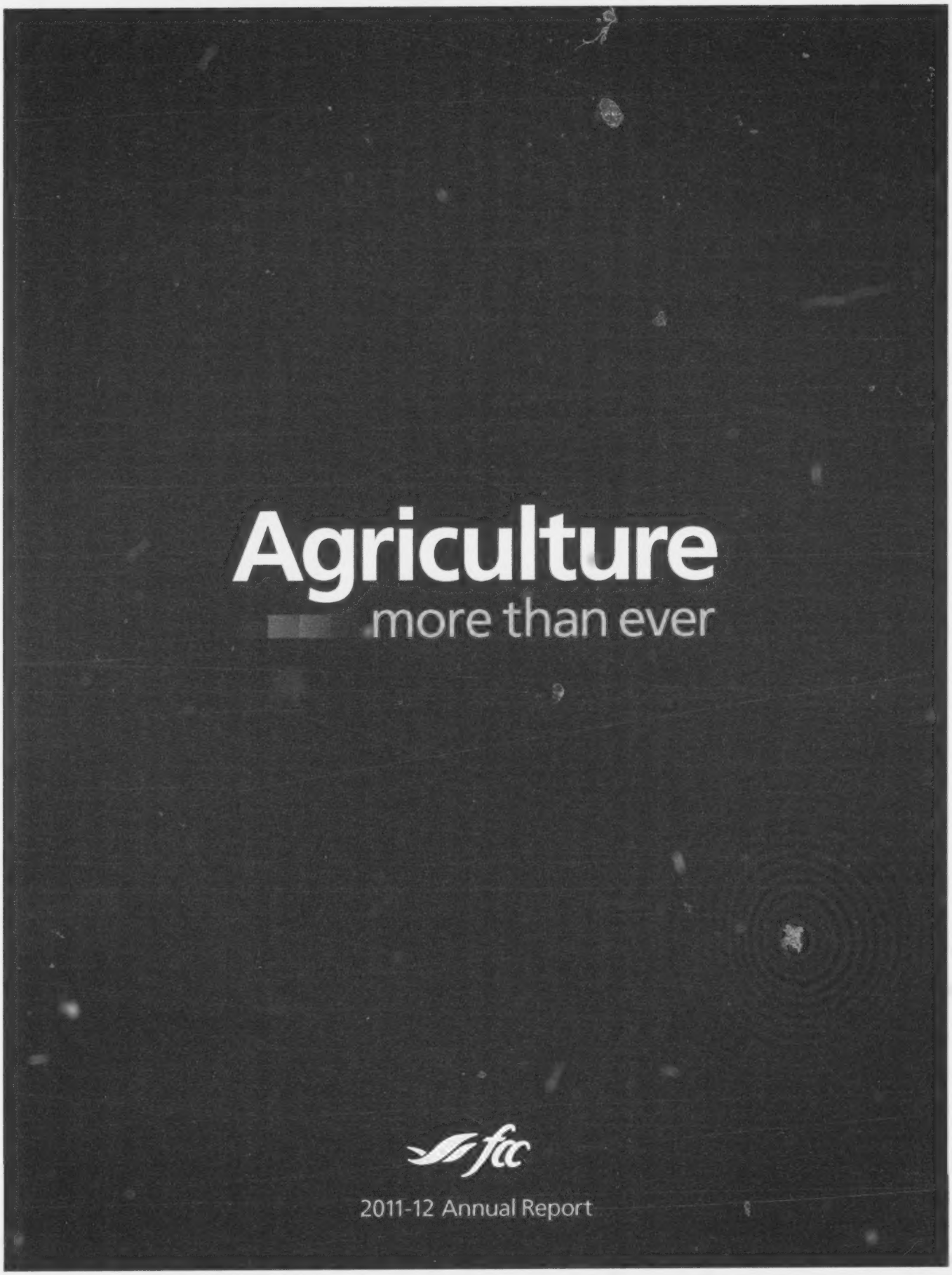

Agriculture
more than ever
fcc
2011-12 Annual Report

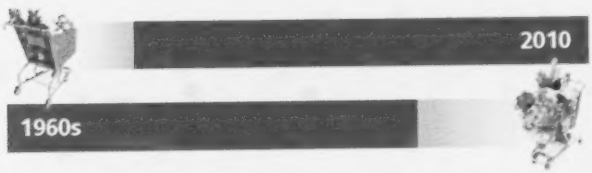
The agriculture and agri-food system provides

1 in 8 jobs in Canada

79% of producers would recommend a career in an agriculture-related field

80%

of producers and agribusiness owners believe their farm or business will be better off in five years



The average Canadian spent about 14 per cent of his or her household budget on food in 2010, down from 19 per cent in the 1960s

At FCC, we're proud to support agriculture. This dynamic and diverse industry is critical to Canada's economy.

Canada produces some of the safest, highest quality food in the world. Our country's innovations in resource management and agribusiness development make Canadians respected world leaders in agriculture.

We know that agriculture has never mattered more to Canada and the world. From the people who work the land to the businesses that support them, from the visionaries who discover new uses for commodities to the companies that bring these new products to market, the future of this industry is strong and bright.

At FCC, we have always believed in the industry and the people who make it great. While agriculture certainly can be challenging, it's also tremendously rewarding.

The story of agriculture is one of success, promise and determination. As Canada's leading provider of financial and business services to agriculture, FCC wants to tell this story. That's why we're championing a cause to ensure that all Canadians understand what agriculture is really about.

Agriculture More Than Ever is not a one-time event or campaign. It's a cause intended to stimulate positive dialogue, share positive stories and portray Canadian agriculture as the modern and vibrant industry it indeed is. Agriculture has tremendous career opportunities in the field, the lab and the boardroom.

FCC is in a unique position to kick-start and support this cause because agriculture is our only focus. We see the successes and optimism of our customers every day. We want all Canadians to understand how important agriculture is to Canada and the world.

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We believe in the strength of Canadian agriculture

Our lending products are tailored to the unique needs of agriculture. We provide business services to the agriculture value chain with accounting and field crop management software, insurance, leasing, knowledge sharing and expertise.

Our learning offerings provide Canadian producers and agribusiness operators with valuable, inspiring information and training to help advance their business management practices. We offer workshops and sessions on a variety of topics, forums where customers can learn and network, free publications that offer tips and track industry trends, and e-learning where the industry and our customers can come to grow themselves and their businesses.

We work with young producers and new entrants to farming, offering products and services that help them get established. We also help facilitate the transfer of family farms from one generation to the next.

While primary production remains our foundation, we also serve those businesses that serve producers – equipment manufacturers, dealers, input providers, food processors and wholesalers. We help businesses like these expand into new markets, improve efficiency and capacity, take advantage of opportunities, adopt new technology and compete in the marketplace.

We support rural communities where our customers and employees live and work through our community investment. We offer farm safety programs, work with food banks to address hunger issues and offer a variety of funds to local projects.

FCC has been in business for more than 50 years. Today, we have more than 100,000 customers and more than 1,500 employees serving them from coast to coast. We're focused on agriculture and committed to the long-term success of the industry.

At FCC, we are advancing the business of agriculture.

FCC customer value proposition

From its origins in 1959, FCC today proudly serves Canadian agriculture as the leading provider of financing to the industry.

We focus on the primary producer as well as suppliers and processors along the agriculture value chain.

We provide our customers with flexible, competitively priced financing, equity, insurance, management software, information and learning.

These services help our customers make sound business decisions and experience greater success.

We take time to get to know our customers, their individual needs, goals and vision for the future. We work with them through challenges and help them pursue opportunities.

We're easy to do business with.

Agriculture. We know it. We love it. We're in it for the long run.

Operational and financial highlights

In 2011-12, Canadian agriculture experienced growth and most enterprises enjoyed a profitable year. Farm cash receipts improved over the previous year, farm assets appreciated in value and producer optimism was high. This created a robust demand for agribusiness products. FCC continued to provide customers with flexible and customized financial solutions, knowledge and expertise to help them succeed. FCC's unwavering commitment to advancing the business of agriculture and delivering an extraordinary customer experience ensured that the corporation remained financially strong. In 2011-12, growth in loans receivable was $1.8 billion or 8.4 per cent.

The number of loans disbursed was 45,578 in 2011-12 and the average size of the loans disbursed was $156,150, resulting in net disbursements of $7.1 billion. Net interest income increased by $47.2 million and equity continues to grow with corporate earnings. As the financial results indicate, FCC continues to build a strong financial foundation, which helps to ensure the continued ability to fund investment and growth in the industry.

For the years ended March 31

Operational highlights

	IFRS		Canadian GAAP		
	2012	2011	2010	2009	2008
Loans receivable portfolio					
Number of loans	126,496	120,070	114,439	106,867	98,066
Loans receivable ($ millions)*	23,202.3	21,401.3	19,816.2	17,130.3	15,011.2
Net portfolio growth (%)	8.4	8.0	15.7	14.1	10.6
Loans receivable in good standing (%)	98.5	97.9	97.7	97.5	97.4
New lending					
Number of loans disbursed	45,578	42,021	41,418	31,037	32,561
Net disbursements ($ millions)	7,116.8	6,153.2	6,585.6	5,068.4	4,285.0
Average size of loans disbursed ($)	156,150	146,432	159,003	163,302	131,600

Financial highlights

	IFRS		Canadian GAAP		
	2012	2011	2010	2009	2008
Consolidated balance sheet ($ millions)					
Total assets	23,829.0	21,870.7	20,286.3	17,802.7	15,470.5
Total liabilities	20,720.8	19,189.3	17,941.2	15,519.2	13,693.5
Total equity	3,108.2	2,681.4	2,345.1	2,283.5	1,777.0
Consolidated statement of operations ($ millions)					
Net interest income	797.3	750.1	609.9	508.0	434.4
Provision for credit losses	1.8	35.6	91.4	70.0	5.0
Other income	51.1	16.0	10.3	6.2	14.4
Administration expenses	283.5	273.8	255.2	231.4	197.6
Fair value adjustment	2.0	3.5	6.6	(1.7)	(41.1)
Net income	565.1	460.2	280.2	211.1	205.1

*Loans receivable for 2008 through 2010 have been restated as a result of prior period adjustments.

Corporate profile

Farm Credit Canada (FCC) is a financially self-sustaining federal Crown corporation reporting to Parliament through the Minister of Agriculture and Agri-Food. Our corporate office is located in Regina, Saskatchewan. We provide financing and other services to primary producers, value-added operators, suppliers and processors along the agriculture value chain. Operating from 100 offices located primarily in rural communities, our more than 1,500 employees are passionate about the business of agriculture.

Our roots date back to 1929, when the Canadian Farm Loan Board (CFLB) was established to provide long-term mortgage credit to farmers. In 1959, the Farm Credit Act established FCC as an agent Crown corporation named in Part 1 of Schedule III of the Financial Administration Act, making us the successor to the CFLB.

In 1993, the Farm Credit Corporation Act was proclaimed into law, providing an expanded mandate and broader lending and administrative powers. Under the new mandate, FCC could provide financial services to farming operations, including individuals, farming corporations and farm syndicates, under the authority of one act.

In 2001, the Farm Credit Canada Act received royal assent, allowing us to offer an even broader range of services to producers and agribusiness operators.

Vision

FCC's long-term vision is as follows:

The full agriculture value chain believes FCC is advancing the business of agriculture by providing financial products, services and knowledge tailored to producers and agribusiness operators.

Our customers are advocates of FCC and can't imagine doing business without us.

We are socially and environmentally responsible and an employer of choice everywhere we operate.

We make it easy for customers and employees to do business.

We are financially strong and stable, and invest significantly in the agriculture and agri-food industry.

Mission

The purpose of the corporation is to enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small and medium-sized businesses, that are businesses related to farming. The primary focus of the activities of the corporation shall be on farming operations, including family farms.

Corporate values

We are committed to advancing the business of agriculture. We do this by setting our sights high – working to benefit our customers and to help employees achieve their potential.

Our corporate values represent these core beliefs:

Act with integrity

We are ethical and honest. We treat customers, colleagues and all stakeholders with respect.

Focus on the customer

We care about our customers, and we pride ourselves on providing them with an extraordinary experience based on personal relationships, flexibility and industry knowledge.

Achieve excellence

We share a commitment to high performance, accountability and efficiency in order to achieve excellence.

Working together

We believe in the power of teamwork. Whether delivering service tailored to customer needs or designing solutions to benefit the industry, we work together as one team.

Give back to the community

We take corporate social responsibility seriously. We believe in giving back to the communities where our customers and employees live and work, striving to reduce our impact on the environment and contributing to the success of the agriculture industry.

Message from the President and CEO

These are exciting times for Canadian agriculture. It's a complex, dynamic industry that is contributing to our country's economy like never before. Not only is agriculture the foundation of our food supply, it supports people employed in the business, technology, health, energy and environment sectors who live in urban and rural settings across Canada. Every Canadian is touched by agriculture.

Agriculture is a demanding, yet rewarding, way of life for producers and agribusiness operators. It requires commitment, forward-thinking and an appropriate risk appetite. Collectively, producers and agribusiness operators are successful, optimistic and strong advocates of the industry.

This was confirmed through the results of the fifth annual national FCC Vision Panel survey, released in January 2012. More than 4,500 producers and agribusiness operators offered their views on the current and future state of the industry. The results are more than encouraging. Eighty per cent believe that their farm or business will be better off in five years. That's an all-time high for this survey. What's more, 77 per cent of respondents reported being better off today than they were five years ago and seven in 10 producers would encourage a friend or relative to pursue a career in primary production.

Canadian agriculture is stable and growing, despite cyclical challenges in some regions and sectors. I believe this is why the people involved in agriculture are so rightfully proud of this industry and their accomplishments.

Having said that, it's surprising to learn that the general public does not view agriculture as positively. In 2011, FCC surveyed Canadians who are not involved in the industry on their perceptions of agriculture. The results certainly did not reflect the optimism and growth that we at FCC and our customers see every day.

The truth is that Canadian agriculture has never mattered more to this country – and the world. That's the message we want the public to understand. It's the message we want every producer and agribusiness operator to truly feel and feel driven to share.

FCC has a responsibility to partner with others to help shift negative perceptions. Canadian agriculture has a great story to tell. Those of us working in the industry need to spread the word and ensure that we talk about agriculture's successes in addition to the challenges.

The agriculture and agri-food system accounts for eight per cent of Canada's gross domestic product and $35 billion in exports every year. It is a major employer in Canada, with 2.1 million jobs related to this industry.[1] Agriculture feeds Canadians as well as countries all over the world.

In 2012, we're launching Agriculture More Than Ever, a major multi-year initiative to change the perceptions of agriculture. We take this cause seriously and we're proud to kick-start and support this important cause.

At FCC, we also demonstrate our commitment to agriculture through our core business, providing financial and business products tailored to the unique needs of the industry. We're the only financial institution focused solely on the agriculture value chain. Most of our 100 offices across the country are in rural areas. We provide flexible loan products, venture capital, software, learning events and publications. We've earned our success with these products and services and, also, by demonstrating integrity, partnership, commitment and excellence. This has built the trust and respect of our customers, our partners and the industry.

Everything we do is designed first and foremost to serve our customers. That's why more than 100,000 people have chosen FCC as their financial partner of choice. More than six out of 10 customers give FCC perfect scores on our customer experience index. They tell us they like dealing with FCC because we're about relationships, we're flexible and we know the

[1] Agriculture and Agri-Food Canada, An Overview of the Canadian Agriculture and Agri-Food System, March 2012

industry. That's no surprise, because our more than 1,500 employees know agriculture inside and out. They are deeply committed to providing customers with an extraordinary experience.

Our loan portfolio of more than $23.2 billion and 19 consecutive years of growth reflect our customers' continued confidence in FCC. In 2011-12, we extended $7.1 billion in disbursements to 40,459 customers across Canada. This includes $1.9 billion borrowed by young farmers to grow their operations. Our portfolio growth of eight per cent and our high customer satisfaction are a direct result of the talent, commitment and enthusiasm of the outstanding people who have chosen to build their careers at FCC.

Speaking of employees, I truly believe that the employee experience at FCC has a direct impact on business results. Just like we want customers to feel that there is nobody else they'd rather do business with, we want employees to feel that there is no place they'd rather come to work every day than FCC. Our internal culture and the employee experience make us different from just about every other workplace. We have continued to achieve great business results, even in tough economic times, because of our focus on how we achieve those results.

Global forces, uncertain financial markets and price fluctuations have accelerated the need for businesses to adapt and innovate, and this is no different for agriculture. Our customers must make complex decisions every day. Product prices and input costs can be volatile, which requires producers to carefully manage their risks. The continued strength of the Canadian dollar continues to challenge our producers and agribusiness operators to strive for peak efficiency. Consolidation is continuing within the industry as intergenerational transfers take place. Like many other industries, producers continue to seek ways to enhance returns. The current interest rate environment has benefited producers and agribusiness operators because of relatively low financing costs. However, interest rates will eventually rise and it's important for everyone involved in agriculture to ensure that their budgets can absorb the costs.

For us at FCC and our customers, industry knowledge and flexibility are more important than ever to manage risk and remain financially strong. A key part of our business is to monitor industry and economic trends. We share this knowledge with our customers and help them to make prudent business decisions. The complexity involved in the daily management of a farm or agribusiness continues to grow. We help our customers navigate market volatility, environmental concerns, consolidation and shifting consumer preferences. In 2011-12, over 27,000 people attended 265 seminars, workshops, forums, webinars and presentations offered through FCC Learning.

No matter how strong an operation is, sometimes the unexpected occurs. We offer customer support programs to help producers manage when such challenges arise and work with them to provide flexible timing to loan payments. In 2011, for example, FCC reached out to customers in Saskatchewan and Manitoba affected by excessive moisture and flooding. We'll continue to support our customers as the industry moves forward.

It's also important to support the communities where our customers and employees live and work. At FCC, giving back to the communities we serve is a big part of who we are and how we operate. Our community investment activities are closely aligned with agriculture. We mainly focus on hunger, rural safety, volunteerism and community enhancement projects.

Each year, our largest community investment activity is the FCC Drive Away Hunger program. Building on an initiative started by a single employee in 2004, our employees across the country partner with business and community organizations and organize tractor tours to collect food for local food banks. In 2011, FCC Drive Away Hunger collected a record 2.4 million pounds of food. In its eight years, the program has collected an amazing 7.8 million pounds of food.

We're proud that our customers choose FCC. They tell us that the reason they stick with us is because we stick with them over the long term, through good times and bad. In the coming months and years, we'll be standing shoulder to shoulder with our customers and partners to tell the great stories happening in the agriculture industry. And, over time, all Canadians will increasingly recognize the engine that puts safe, high-quality food on the table and supports jobs and families from coast to coast.

Agriculture matters to Canadians and the world – more than ever.

Greg Stewart, President and CEO

Message from the Board Chair

It is an honour to serve Canada's agriculture industry. It's an exciting, dynamic and forward-looking industry that contributes to the health and well-being of Canadians.

Today's producers and agribusiness operators work hard to succeed in an increasingly complex and demanding business environment. FCC is proud to offer them the products, services, knowledge and tools to help them take advantage of opportunities and manage through challenges.

FCC is the only national financial institution focused solely on agriculture and committed to its long-term success. Both established producers and newcomers look to FCC as a trusted financial and business partner. Suppliers, processors and value-added operators benefit from FCC's innovative products and services.

As a federal Crown corporation, FCC also demonstrates its public policy role through workshops and training, customized management software, support for producers facing challenges, and programs that invest in rural communities across the country.

On behalf of the FCC Board of Directors, I would like to recognize the dedication of the Executive Management Team. Their strong leadership and effective management has once again led FCC to another outstanding year operationally. I also thank FCC employees across the country for their outstanding contributions to their customers, their communities and the industry. I'm especially proud of the fantastic results achieved by the FCC Drive Away Hunger program. The 2.4 million pounds of food collected in 2011 and 7.8 million pounds raised since 2004 are a wonderful example of community involvement.

The entire Board of Directors shares the corporation's commitment to advancing the business of agriculture. The Board's role is to ensure that FCC is governed appropriately and performs in the best interests of the corporation, agriculture and all Canadians.

As Board Chair, I am excited about the future of FCC and the future of the Canadian agriculture industry. The enthusiasm and commitment that drives this corporation will continue to help the industry prosper.

Respectfully submitted on behalf of the FCC Board of Directors,

Gill O. Shaw, Board Chair

Message from the Agriculture Minister

Canada's agriculture industry is creating jobs, fuelling economic growth and feeding families here at home and around the world. It continues to be the backbone of a strong and healthy Canada. These are exciting times as the industry experiences change and evolution, and we're committed to ensuring that agriculture remains viable, profitable and competitive in the global market.

FCC plays an essential role in helping our agriculture industry grow and prosper. As Canada's leading provider of financial and business services tailored to the industry, FCC is uniquely positioned to serve the entire value chain from producers to suppliers and processors. FCC's focus on agriculture – coupled with its outstanding suite of products and services, the knowledge and commitment of its employees and genuine care for rural communities – makes the corporation a truly valuable business partner to the industry it serves. Most importantly to farm businesses, FCC is a dependable partner when planning for the future.

I congratulate FCC on its 19th consecutive year of portfolio growth. This accomplishment is a clear indication of the corporation's connection with its customers and ongoing confidence in FCC as their financial partner of choice. It also shows that FCC shares the government's vision of investing in the long-term growth of Canadian agriculture and agri-food by building new markets, supporting young producers and ensuring that customers have access to the tools they need for success. I am particularly pleased to see the strong growth of FCC's agribusiness and agri-food products and services. Not only does this support primary producers, it also helps generate profit and jobs for value-added enterprises and contributes to economic growth in Canada.

I'm proud that FCC will continue to serve agriculture customers in what will surely be a prosperous future, just as it has through every past economic cycle. On behalf of the Government of Canada, I extend my thanks to FCC and its employees for their fine work and commitment to the prosperity of the agriculture industry.

Gerry Ritz, Agriculture Minister

FCC and public policy

Statement of priorities

FCC supports the federal government's vision for continued growth and prosperity in the agriculture industry.

The Minister of Agriculture and Agri-Food has established the following priorities to ensure that FCC continues to strengthen the agriculture industry:

- FCC will continue to work collaboratively with Agriculture and Agri-Food Canada (AAFC) on key issues affecting the industry. For example, FCC will continue to provide advice and expertise to AAFC as it works to develop the Growing Forward 2 agriculture policy framework and implement its service excellence agenda.
- FCC plays an important role in supporting farmers and giving them the tools they need to grow their operations. FCC will continue to provide a full range of credit products – short-term credit, long-term mortgages and venture capital – at competitive rates.
- FCC provides financial services that allow its customers to grow, diversify and expand, both within and outside of Canada. As such, FCC will continue to work with the Business Development Bank of Canada and Export Development Canada, along with AAFC, to support access to international markets for Canadian agribusinesses.
- FCC plays a vital role in supporting renewal in agriculture. Working with stakeholders and in collaboration with AAFC, FCC will continue to offer unique business services, workshops and learning forums, as well as publications and educational offerings tailored to the specific needs of producers and agribusiness operators. FCC will continue to work with young farmers and new entrants in agriculture to offer products that will help them get established and help facilitate the intergenerational transfer of family farms throughout Canada.
- It is vital that FCC remains self-sustaining and profitable, while at the same time remaining efficient in the delivery of its products and services, by controlling discretionary spending and managing all of its expenditures prudently.
- FCC will abide by the spirit and intent of the government's Strategic and Operating Review[2] introduced in the 2011 federal budget.

We are proud to serve all of agriculture, all the time – all sectors, all across Canada

FCC's public policy role

FCC enhances rural Canada by providing specialized and personalized business and financial services to farm families and agribusinesses.

Our public policy role is the foundation of everything that we do to advance the business of agriculture.

With more than 100,000 customers[3] nationwide, we help producers and agribusiness operators succeed in an increasingly complex and demanding industry.

FCC provides financing to producers of all ages and to agriculture operations of all sizes, across all sectors. We loan money to agribusinesses, including suppliers and processors that serve producers. A healthy value chain provides producers with more stable purchasing and selling options.

In 2011-12, 40,459 customers received loans or other financial products through one of FCC's 100 offices, which are located primarily in rural areas across Canada:

Alberta – 8,312
British Columbia – 2,763
Manitoba – 2,962
New Brunswick – 511
Newfoundland & Labrador – 121
Nova Scotia – 520
Ontario – 10,520
Prince Edward Island – 274
Quebec – 4,332
Saskatchewan – 10,118
Yukon – 26

Among these customers, 38,280 are primary producers and 2,179 are agribusiness operators.

In 2011-12, we loaned over $1.9 billion to young farmers.

[2] This has been renamed the Deficit Reduction Action Plan.
[3] FCC currently has more than 100,000 customers. The customer number includes all customers with an active loan balance who are primary borrowers, co-borrowers or guarantors for personal and corporate loans, including primary production, agribusiness and agri-food, and alliances.

We are dedicated to agriculture and take the long-term view

FCC is a profitable, financially self-sustaining Crown corporation. We support the agriculture industry and we are committed to its long-term success. Our strong financial position enables us to create innovative products and services that are tailored to the dynamic needs of the industry and ensure that producers and agribusiness operators have choices in the marketplace.

Our loan products reflect that agriculture is a cyclical industry and that it takes time for business operations to flourish. Unpredictable weather and market conditions can negatively affect even the best producers and agribusiness operators. We support our customers through highs and lows.

For over 10 years, FCC's customer support program has helped producers manage when unexpected challenges arise, particularly during unpredictable events such as avian flu, drought and the 2003 BSE (bovine spongiform encephalopathy) crisis.

In 2011, we assisted customers affected by excess moisture in Manitoba and southeastern Saskatchewan with flexible solutions tailored to individual producer situations.

We are visionary and operate our business in a sustainable manner

FCC offers unique products and services to help young farmers and agribusiness entrepreneurs succeed in a sophisticated marketplace that continually evolves.

We believe that knowledge is vital to the success of our customers and the industry. We offer workshops, publications and learning forums across the country, and encourage employees and customers to share insights and information. These services are offered free of charge.

Our corporate social responsibility framework focuses on agriculture and food, community, customers, employees and the environment. To support our commitment, we offer environmental information and products to our customers, hire and develop employees who are passionate and knowledgeable about agriculture, give back to the communities where our customers and employees live and work, and continually work to reduce our environmental footprint.

The FCC AgriSpirit Fund awards rural community groups between $5,000 and $25,000 for community improvement projects such as recreation and community centres, emergency services training facilities and health and safety centres.

In 2011-12, FCC gave a total of $1 million through the fund to 120 rural community groups across Canada for various capital projects.

Corporate governance

We are accountable to the Parliament of Canada

FCC is governed by the Farm Credit Canada Act and the Financial Administration Act. Like other Crown corporations, we are subject to laws such as the Federal Accountability Act, Privacy Act, Access to Information Act, Canadian Labour Code, Employment Equity Act, Canadian Environmental Assessment Act and Official Languages Act.

We build relationships with our customers, partners and stakeholders

FCC looks to a variety of stakeholders and partners for guidance and expertise in public sector governance practices.

FCC regularly meets with Agriculture and Agri-Food Canada, the Treasury Board of Canada Secretariat, the Department of Finance and other Crown corporations to ensure that our policies and procedures are current and sound. Each year, we collaborate with Export Development Canada and the Business Development Bank of Canada to share ideas and best practices about ways that we can work together to benefit customers. We also seek opportunities to work with banks and credit unions to meet the financial needs of our customers.

The FCC Vision Panel is a 9,000-member research advisory group representing small to large Canadian producers and agribusiness operators across all sectors. The panel's input helps us to ensure that our products and services meet the needs of the agriculture industry.

In addition, the FCC Board of Directors hosts an annual public meeting every August where we report our activities and financial results and listen to feedback from interested stakeholders and the Canadian public about our mandate and strategic direction.

FCC attends the annual meeting of the Canadian Federation of Agriculture and events and meetings hosted by other industry and producer groups to share knowledge and solicit input and feedback on issues facing agriculture.

We represent Canadians

Representing the interests of Canadian people, particularly those who make their livelihood in the agriculture industry, the Board oversees the corporation's business operations.

Directors are appointed by the Governor in Council upon the recommendation of the Minister of Agriculture and Agri-Food. Except for the President and CEO, directors are independent of management. They bring a combination of senior agriculture, business and financial experience and expertise to the task of governing a corporation that serves an increasingly complex industry.

Board composition

The Board is composed of 12 directors, including the Chair and the President and CEO. Directors serve terms of up to four years and may be reappointed.

Directors include successful primary producers and agribusiness operators from rural and small urban centres. The Board strives for diversity – gender, geographic, ethnic, cultural, age and language – to reflect the broad spectrum of agriculture in Canada. Directors participate in one of three Board committees: Audit, Human Resources or Corporate Governance.

The Board is committed to financial transparency, and the Audit Committee works closely with the Office of the Auditor General (OAG) of Canada to ensure the integrity of FCC internal controls and management information systems. The OAG audits FCC every year and performs a special examination at least every 10 years. The purpose of special examinations is to ensure that Crown corporations' systems and practices provide reasonable assurance that assets are safeguarded, resources are managed economically and efficiently, and operations are carried out effectively. The most recent special examination of FCC began in May 2011 and the OAG report is expected in the first quarter of 2012-13.

Every year, FCC's annual report and five-year corporate plan are approved by the Board. The annual report is then submitted to the Minister of Agriculture and Agri-Food and the President of Treasury Board. After Treasury Board approval of the Corporate Plan, a summary of the corporate plan is submitted to the Minister of Agriculture and Agri-Food. Both the annual report and the summary of the corporate plan are tabled before each House of Parliament.

New appointments

On June 23, 2011, Dale Johnston from Ponoka County, Alberta, was appointed to replace Gilles Lapointe. Sylvie Cloutier of Bromont, Quebec, was appointed to replace Caroline Belzile effective April 5, 2012.

We take care of the business

The Board oversees the strategic planning process and provides input, guidance, validation and a critical evaluation of strategic plans and initiatives. After the plans are approved, the Board provides support to implement them and measure success. Strategic initiatives are reviewed throughout the year.

The roles and responsibilities of the Chair, Board directors, President and CEO and committees are set out in written profiles and charters. The charter and related governance guidelines establish the Board's responsibilities in six major areas:

- integrity – legal and ethical conduct (setting the tone at the top)
- strategic planning and risk management
- financial reporting and public disclosure
- leadership development
- government relations and corporate social responsibility
- corporate governance

The corporation has a well-established enterprise risk management process designed to identify potential events that may affect business operations. The Board ensures that appropriate authorities and controls are in place, risks are properly managed and the achievement of goals and objectives is not in jeopardy.

Senior FCC managers work closely with the Board to ensure that the Board is fully aware of the corporation's affairs. The Chief Financial Officer and the Chief Operating Officer attend every Board meeting. Other members of the Executive Management Team also attend meetings on a rotating basis to strengthen the relationship between the Board and management. There is time set aside at each meeting for the Board and each of its committees to meet without management present.

The Board follows a formal approach to the President and CEO's goal-setting and performance review that is consistent with the Performance Management Program established by the Federal Privy Council Office.

Board performance

Upon appointment to the Board, each director receives a detailed orientation and meets with senior management to learn about the corporation. To gain an understanding of FCC's business, directors regularly visit customer operations and attend employee meetings. In addition, many directors attend conferences and seminars that are relevant to corporate governance and the business of FCC. Some are also involved in director certification programs.

The Board regularly assesses its collective performance and the individual performance of its directors through a structured self-evaluation process.

Position profiles for the Chair and individual directors are reviewed annually to ensure that they continue to accurately describe desired competencies and skills. Gaps are addressed through new appointments, training and by hiring outside experts to assist the Board in its review of technical or specialized issues.

Compensation

Directors are paid an annual retainer and per diem amounts that are established by the Governor in Council, pursuant to the Financial Administration Act. Rates were last set on January 8, 2008.

- The Board Chair receives an annual retainer of $12,400.
- Committee chairs receive an annual retainer of $7,200.
- Other directors receive an annual retainer of $6,200.
- All directors, including the Chair, receive a per diem of $485 for meetings, training sessions, travel time and FCC-sponsored events.
- Directors are reimbursed for all reasonable out-of-pocket expenses, including travel, accommodation and meals, while performing their duties.

During 2011-12, there were seven Board meetings and 16 committee meetings. Total remuneration (annual retainer and per diems) paid to all directors was $212,579.00. Total Board travel and related expenses were $179,159.53, compared to $155,545.62 in 2010-11.

2011-12 Board remuneration, attendance and expenses

Director	Annual retainer (A)	Per diems (B)	Total remuneration (A&B)	Board meeting attendance	Committee meeting attendance	Board travel and related expenses
Caroline Belzile	$ 6,200.00	$ 14,550.00	$ 20,750.00	7 of 7	4 of 4	$ 18,713.36
Donald Bettle	6,200.00	17,460.00	23,660.00	6 of 7	4 of 4	29,349.41
Caroline Granger	7,200.00	15,035.00	22,235.00	7 of 7	4 of 4	20,671.60
Brad Hanmer	7,200.00	8,245.00	15,445.00	6 of 7	4 of 4	4,612.15
Ron Hierath	6,200.00	7,760.00	13,960.00	3 of 7	2 of 4	8,433.40
Dale Johnston[4]	4,999.00	0.00	4,999.00	6 of 6	3 of 3	13,216.89
John Klippenstein	7,200.00	16,490.00	23,690.00	7 of 7	8 of 8	16,545.01
Gilles Lapointe	1,550.00	1,940.00	3,490.00	1 of 1	1 of 1	6,277.75
Ross Ravelli	6,200.00	10,670.00	16,870.00	5 of 7	4 of 6	12,473.29
Gill O. Shaw	12,400.00	19,885.00	32,285.00	7 of 7	8 of 8	15,581.94
Jason Skinner	6,200.00	5,820.00	12,020.00	5 of 7	6 of 8	5,371.12
Carl Spencer	6,200.00	16,975.00	23,175.00	7 of 7	4 of 4	27,913.61
Total	$ 77,749.00	$ 134,830.00	$ 212,579.00			$ 179,159.53

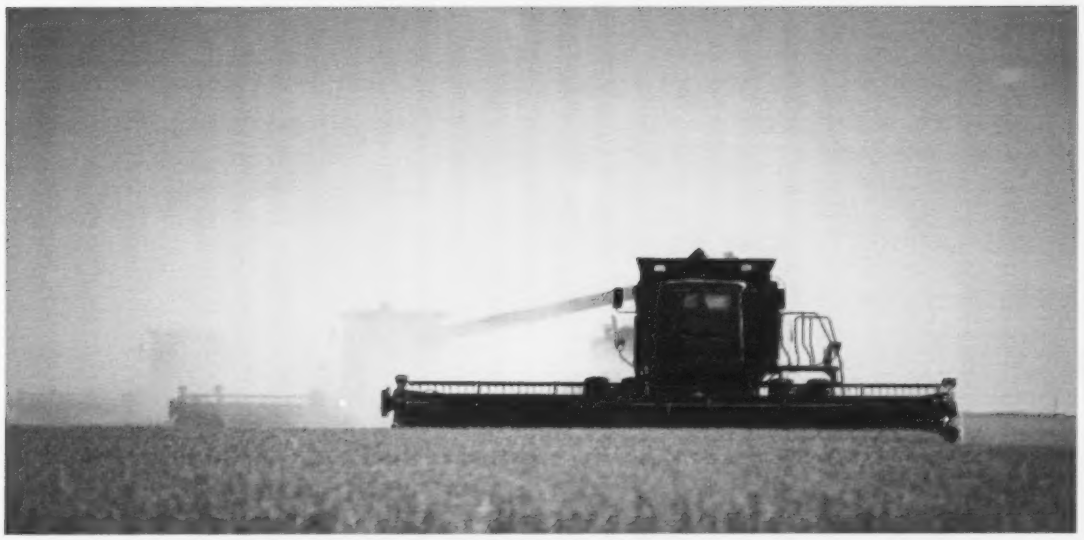
There were eight Audit, four Human Resources and four Corporate Governance committee meetings.

Code of conduct, ethics and values

At FCC, acting with integrity and maintaining the highest ethical standards are vital priorities. On appointment and every year during his or her tenure, each director signs a declaration committing to act in accordance with FCC's Code of Conduct and Ethics. The Board has also established a process to directly disclose any potential violations of the code by the President and CEO or his direct reports, and a policy that specifies how to address situations where a director has a conflict of interest. FCC's Integrity Officer discloses all possible violations of the code and discusses ongoing employee education and awareness with the Board annually.

In addition, the Audit Committee reviews the travel and hospitality expenses of the President and CEO quarterly. The committee also annually reviews a listing of all contracts over $50,000.

[4] As a former member of parliament, Dale Johnston is subject to the Members of Parliament Retiring Allowances Act. His total remuneration is capped at $5,000.



Board committees

Audit Committee

Chair: John Klippenstein
Members: Gill O. Shaw (Board Chair), Ross Ravelli and Jason Skinner

Members of the Audit Committee are independent of management. All committee members are financially literate and most members are considered to be financial experts.

The Audit Committee oversees FCC's financial performance and ensures the integrity, effectiveness and accuracy of the corporation's financial reporting, control systems and audit functions.

In addition to meetings with management, this committee meets regularly with representatives of the Office of the Auditor General and FCC internal auditors without management present.

Human Resources Committee

Chair: Brad Hanmer
Members: Caroline Belzile, Donald Bettle and Greg Stewart (CEO)

The Human Resources Committee reviews all major human resources policy matters. The committee is responsible for advising the Board with respect to the skills and characteristics essential to the position of the President and CEO and how to assess his performance. It also works with the President and CEO to agree on an annual development plan.

The Human Resources Committee is responsible for reviewing the corporation's compensation structure, succession plan, including training and development plans for employees, and the executive perquisites program.

Corporate Governance Committee

Chair: Caroline Granger
Members: Ron Hierath, Dale Johnston and Carl Spencer

The Corporate Governance Committee reviews and makes recommendations to the Board with respect to sound governance practices. It also oversees the corporation's strategic planning process, including enterprise risk management and FCC's corporate social responsibility program. This committee also acts as the Board's nominating committee.

The Corporate Governance Committee regularly reviews the number, structure and mandates of the Board's committees and is responsible for conducting Board evaluations concerning the performance of directors, committees and the Board as a whole. The Corporate Governance Committee also oversees the FCC policies on ethics, conflict of interest and code of conduct for employees and directors.

FCC Board of Directors*

Gill O. Shaw, MBA, B.Sc.Ag.
Chair, FCC Board of Directors

Retired CEO, Manitoba Agricultural Credit Corporation

Brandon, Manitoba
Appointed Chair October 30, 2006
Reappointed Chair August 4, 2009

Greg Stewart, P.Ag., C.Dir.
President and CEO, FCC

Regina, Saskatchewan
Appointed January 1, 2008

Donald Bettle
Owner, cow/calf operation and woodlot

Passekeag, New Brunswick
Appointed January 25, 2007
Reappointed February 10, 2010

Sylvie Cloutier, BA, Comm.
President and CEO, The Quebec Food Processors Council

Bromont, Quebec
Appointed April 5, 2012

Caroline Granger
President and CEO, The Grange of Prince Edward Vineyards and Estate Winery

Hillier, Ontario
Appointed June 27, 2007
Reappointed August 6, 2010

Brad Hanmer, B.Sc.Ag.
Co-owner/operator, commercial grain and pedigreed seed farm

Govan, Saskatchewan
Appointed January 25, 2007
Reappointed February 10, 2010

Ron Hierath
Realtor, residential and agricultural sales

Lethbridge, Alberta
Appointed January 25, 2007
Reappointed February 10, 2010

Dale Johnston
Owner/operator, mixed farming operation

Ponoka County, Alberta
Appointed June 23, 2011

John Klippenstein, FCMA
COO, Klippenstein Management Services

Steinbach, Manitoba
Appointed July 30, 2008
Reappointed December 15, 2011

Ross Ravelli
Owner, Ravelli Farms Ltd.

Dawson Creek, British Columbia
Appointed February 10, 2010

Jason Skinner, M.Sc., P.Ag.
CEO, NorthWest Terminal Ltd.

Wilkie, Saskatchewan
Appointed February 12, 2009,
Reappointed March 1, 2012

Carl Spencer, B.Sc.Ag.
Owner/operator, beef farm and maple syrup operation

Tara, Ontario
Appointed November 26, 2009

*Full biographies are available at www.fcc.ca

Executive Management Team

Greg Stewart, P.Ag., C.Dir.
President and Chief Executive Officer

Rick Hoffman, CMA, MBA
Executive VP and Chief Financial Officer

Rémi Lemoine, MBA, CCP
Executive VP and Chief Operating Officer

Lyndon Carlson, P.Ag.
Senior VP, Marketing

Kellie Garrett, MA, MC, ICD.D
Senior VP, Strategy, Knowledge and Reputation

Michael Hoffort, P.Ag.
Senior VP, Portfolio and Credit Risk

Greg Honey
Senior VP, Human Resources

Paul MacDonald
Senior VP and Chief Information Officer

FCC has attracted a senior team of professionals with diverse talents and experience. Our Executive Management Team (EMT) members are sought after as best practice leaders in their professions, and they actively volunteer in their communities. Each member of EMT believes that a culture characterized by open communication and trust results in engaged employees who forge great relationships with customers.

EMT is responsible for corporate decision-making, including the strategic vision, investment strategy, allocation of enterprise resources and resolution of major strategic issues.

All executives, with the exception of the President and CEO, are paid within salary ranges and compensation policies approved by the FCC Board of Directors. The Governor in Council establishes the President and CEO's compensation. All executives receive a variable pay-at-risk component linked to the performance of the corporation, division and individual. In 2011-12, the salary range for the President and CEO was set at $286,300 to $336,800. The salary range for Executive Vice-Presidents was $180,725 to $326,985. The salary range for Senior Vice-Presidents was $154,955 to $236,990.

FCC Rosemary Davis Award

As agriculture continues to evolve, so does the face of the industry. More and more women are being recognized for their innovation and leadership in the field. This year, we are proud to honour five of these outstanding women as the 2012 winners of the FCC Rosemary Davis Award.

The award is presented annually to women across Canada who serve as role models to others in the agriculture industry. Successful producers, agrologists, mentors, educators, agribusiness operators and volunteers, these women display a knowledge and passion for agriculture that is second to none.

This award is named for Rosemary Davis, the first woman to chair the FCC Board of Directors. FCC is proud to honour her contributions to the industry as a successful agribusiness owner and operator.

Martine Bourgeois
Poultry nutrition manager, egg producer, agriculture industry leader

Saint-Ours, Quebec

Katherine Elaine Buckley
Research scientist, green champion, educator

Brandon, Manitoba

Betty Lou Scott
Cattle producer, 4-H Leader, volunteer

Salt Springs, Nova Scotia

Judy Shaw
Agriculture industry leader, communicator, visionary

Guelph, Ontario

Bonnie Spragg
Hog producer, food processor and developer

Rosemary, Alberta

Corporate social responsibility

The annual FCC Drive Away Hunger program rolls through communities across Canada.

At FCC, we take corporate social responsibility seriously. It's part of our corporate vision and guides how we operate.

We give back to the communities where our customers and employees live and work, strive to reduce our environmental impact and contribute to the success of the Canadian agriculture industry.

Being socially responsible is important to our customers, employees, communities and the Government of Canada. We're committed to conducting business in a responsible and sustainable manner and being accountable to our stakeholders through sound corporate governance practices.

At FCC, our corporate social responsibility framework comprises five focus areas.

Agriculture and food

We support the development of a sustainable, competitive and innovative Canadian agriculture industry by providing knowledge and education and by supporting initiatives and forming partnerships that advance the business of agriculture.

2011-12 highlight: We offered 265 learning events to help 27,126 customers succeed in this ever-evolving industry. These free events covered a variety of key topics, including vision and goal-setting, hiring and keeping employees, transferring the farm and estate planning.

Community

We foster strong and vibrant communities where our customers and employees live and work, with a focus on rural Canada.

2011-12 highlight: Through the FCC Drive Away Hunger program, we work with communities and partners to collect food each year for those who need it most. In 2011, the program collected 2.4 million pounds of food for Canadian food banks. Since its inception in 2004, the FCC Drive Away Hunger program has collected 7.8 million pounds of food.

Customers

We focus on primary producers as well as suppliers and processors along the agriculture value chain. We provide our customers with flexible, competitively priced financing, insurance, software, learning programs and other business services.

2011-12 highlight: When our customers face crises, we're there to help with the FCC Ag Crisis Fund. The fund enables our employees to request support for individual customers to deal with issues such as serious illnesses, natural disasters, fires or farm accidents. In 2011-12, the fund provided $285,750 to support 179 customers. It also provided $37,000 to support community disaster relief projects across the country.

Employees

We foster a culture of accountability, partnership and diversity and deliver an exceptional employee experience.

2011-12 highlight: FCC strives to have a workforce that reflects the Canadian population. We launched the FCC Aboriginal Student Empowerment Fund to help Aboriginal students succeed in their studies and encourage them to consider FCC as a career. The fund is open to Aboriginal students attending one of four southern Saskatchewan post-secondary institutions: First Nations University of Canada, University of Regina, Saskatchewan Indian Institute of Technologies and Saskatchewan Institute of Applied Science and Technology (Wascana and Palliser campuses). The fund targets students enrolled in areas where FCC hires and makes available up to $1,000 for basic needs during the semester. Eligibility is based on need. In 2011-12, the fund assisted 26 Aboriginal students.

Environment

We improve our environmental performance and support the industry with tools and knowledge to do the same.

2011-12 highlight: FCC Enviro and Energy loan products help customers enhance their environmental performance and reduce environmental risk. In 2011-12, we loaned $836,659 through the Enviro-Loan, which allows customers to defer principal payments while constructing, improving or expanding their operations to improve environmental facilities. We loaned $26.7 million through the Energy Loan, which helps customers convert to renewable energy sources such as biogas, geothermal, wind or solar power.

FCC corporate social responsibility report

The first FCC corporate social responsibility report was issued in 2011, covering the 2010-11 fiscal year. The report was prepared using the Global Reporting Initiative G3 Sustainability Reporting Guidelines. The Global Reporting Initiative is a non-profit organization that promotes economic sustainability. It provides a comprehensive sustainability reporting framework that is widely used around the world.

The 2010-11 FCC Corporate Social Responsibility Report is available at www.fcc.ca/csrreport.

The 2011-12 FCC Corporate Social Responsibility Report will be issued in the fall of 2012.

Each year, FCC hosts 10 customer forums across the country. Industry experts and celebrity speakers share stories of success, inspiration and overcoming challenges.

Management's discussion and analysis

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Caution regarding forward-looking statements

This management's discussion and analysis (MD&A) includes forward-looking financial information based on certain assumptions that reflect management's planned course of action with the most probable set of economic conditions. By their nature, assumptions are subject to inherent risks and uncertainties. There is significant risk that actual results may vary and that the differences may be material. Some factors that could cause such differences include changes in general economic and market conditions, including, but not limited to, interest rates.

Basis of preparation of financial information

FCC's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These are the corporation's first annual financial statements prepared in accordance with IFRS. The impact to the corporation of the transition to IFRS is outlined in Note 3 of the Consolidated Financial Statements. The financial information included in the MD&A for the years ending March 31, 2012, and March 31, 2011, is derived either directly from FCC's consolidated IFRS financial statements or from information FCC has used to prepare them. FCC has used the IFRS Practice Statement Management Commentary and the accompanying Basis for Conclusions document as guides for preparing its MD&A. The MD&A is intended to be read in conjunction with the March 31, 2012, Consolidated Financial Statements and the corporate plan documents.

Industry overview

FCC operates in the agriculture and finance industries. Both are shaped by market forces and global trends, and both are growing more diverse and complex. Worldwide demand for safe, sustainably produced food is rising, as is concern for the environment and an interest in finding alternative uses for agriculture products. Canadian producers and agribusiness owners are experiencing growing global demand for their products as well as volatile financial and market conditions. Knowledge and opinions about these issues vary and are instantly shared through social media and the Internet, as well as traditional media.

It is interesting to note that Canadian producers and agribusiness operators are largely positive about their industry. A 2011 poll of the FCC Vision Panel[1] revealed that optimism is at an all-time high due to a combination of strong agriculture commodity prices and demand, both domestically and internationally. Of those surveyed, 80% said they believed that their farms or businesses will be better off in five years. More than 75% of Canadian producers reported being better off than they were five years ago and they have higher expectations for future growth than in the past. Fifty-eight per cent of producers are planning to expand and/or diversify their operations in the next five years. Two forward-looking reports support the optimism of the FCC Vision Panel. Agriculture and Agri-Food Canada's (AAFC) Medium Term Outlook for Canadian Agriculture 2011-2021 and the United States Department of Agriculture (USDA) Agricultural Projections to 2021 paint a positive picture over the next 10 years. This is not to say that everything is rosy. The industry will continue to face challenges, such as the cycles inherent in agriculture, which vary considerably from one sector to another. The difference is that opportunities are much more diverse, largely from growing populations and increasing global demand, and producers and agribusiness operators are more and more savvy about harnessing the power of marketing, efficiency and technology to capitalize on these opportunities.

Global trends

Whether the products of the Canadian agriculture and agri-food industry are destined for export or domestic markets, the industry is affected by global business trends. FCC continues to monitor those trends.

As incomes rise in developing countries, diets are becoming more diverse as citizens are consuming more meat and dairy. Demographics throughout the world are changing. Populations are aging in western nations, while developing countries continue to see significant population growth – trends that will further alter the dynamics of food demand. Potential demand for Canadian products in emerging markets is increasing. Canada can capitalize on these opportunities to export more food, feed and fibre.

Increased attention is being focused on the cost of energy. The demand for energy is expected to increase by as much as 30% to 35% in the next 25 years. This would significantly affect producers and agribusiness operators, who are already working to make their operations more energy efficient. Others are producing energy and selling any surplus to the grid.

By monitoring long-term global economic and demographic trends, we can examine scenarios for future Canadian farm income. Rising world demand for food is positive for Canadian agriculture. The continued expansion of market access for Canadian agri-food products will result in new market opportunities. Increasing energy costs will result in higher input costs for the industry. The relatively strong financial position of Canada and the agriculture industry will allow producers and agribusiness operators to adopt more energy-efficient technology and use inputs more efficiently.

[1] The FCC Vision Panel is a national FCC research panel with more than 9,000 members from across Canada. Members are involved in primary production, various levels of agribusiness and agri-food, and other businesses with a direct association with the agriculture industry.

Key economic indicators

The Canadian economy emerged from the last recession in a relatively good position. Canada's gross domestic product (GDP) is at a point in the business cycle where it is expanding beyond the peak reached prior to the beginning of the recession in 2008. Canada benefits from a solid banking sector, productive human resources, excellent infrastructure and highly efficient financial markets. The strength of the Canadian economy partly rests on strong external demand for Canada's plentiful natural resources and commodities.

Globally, economic recovery is primarily driven by consumer spending, business investments and trade. Despite relatively high unemployment in many countries, the Organisation for Economic Co-operation and Development (OECD) believes that the global economic recovery is self-sustaining.[6] However, risks to the world economy include unrest in the Middle East and rising oil prices, sovereign debt issues in Europe and slower economic growth in key emerging markets.

A weak labour market in the United States and potential increases in oil prices could create a significant drag on economic growth because the U.S. economy is driven by consumer expenditures. Nevertheless, it is expected that U.S. demand for Canadian products will increase moderately in the next year. The sovereign debt crisis in Europe has forced many countries to implement strong austerity measures. Deteriorating economic conditions in Europe can have spillover effects in emerging markets such as China. While 2012 economic growth in China is not expected to be as strong as it was in recent years, consumer disposable income will continue to climb throughout the emerging world. This will create export opportunities for Canada. As demand for agriculture and agri-food products continually evolves, FCC must also evolve its products and services to allow customers to take advantage of opportunities in the marketplace and remain competitive.

Canada is seen as a leader in growth among industrialized economies, yet significant risks to the world economy could lower economic growth in Canada. Economic forecasts by the Bank of Canada indicate that Canada's annualized GDP growth could be around 2.4% in 2012 and 2013.[7]

Canada's banking system continues to be an example to the world since the global economic crisis and is demonstrating increased strength. Global financial institutions are focused on more conservative risk policies and reduced operating costs.

Interest rates are at near-record lows. The Bank of Canada's recent policy statement noted that stimulus will have to be eventually withdrawn, opening the door for a potential increase in the overnight rate in late 2012. The Bank of Canada's monetary policy will ultimately be dictated by the strength of the Canadian economy. FCC is monitoring changes in inflation and economic growth prospects to remain informed about future financial market scenarios.

Despite the challenges that economies around the world are expected to face, the Conference Board of Canada expects that commodity prices for agriculture products, mining and oil will remain strong through 2012. The combination of strong commodity prices and low interest rates can create growth opportunities for agriculture and agri-food operations and result in strong demand for FCC's products and services.

One of the federal government's priorities is a return to balanced budgets through various means, including reviews of government administrative functions, programs and overhead costs to improve efficiency and effectiveness. The government has requested that all areas of government control costs, including Crown corporations. FCC is committed to adhering to the spirit and intent of the federal Deficit Reduction Action Plan. As well, the corporation is further quantifying the potential impacts of unexpected global, agricultural and domestic economic environments on its portfolio and balance sheet.

[6] OECD (2011), OECD Economic Outlook, Vol. 2011/1, OECD Publishing | doi: 10.1787/eco_outlook-v2011-1-en

[7] Bank of Canada, Monetary Policy Report, April 18, 2012 | www.bankofcanada.ca/2012/04/speeches/opening-statement-88/

Agriculture industry overview

In 2011, overall growth in food demand was positive for Canadian agriculture. Farm assets, including farmland, appreciated in value. Farm cash receipts and input prices have both increased, while the value of the Canadian dollar relative to the U.S. dollar has remained strong. The following offers a brief overview of these financial factors as well as observations specific to some sectors.

Farm debt

Farm debt levels are a commonly debated topic, particularly in light of economic outlooks in the short and long term. Canadian farm debt has mainly increased at the rate of inflation, except for farms with annual sales larger than $500,000 in supply-managed sectors. During the five years between 2005 and 2010, the equity of all Canadian farms increased by $70.5 billion.[i] However, the debt-to-equity ratio remained stable. The value of agriculture assets has grown concurrently with the increase in debt, so industry leverage has, therefore, remained relatively stable. More importantly, although farm liabilities increased by 32% between 2005 and 2010, total net cash income increased by 42%. This suggests that Canadian agriculture operations are using debt to improve profitability and are positioned to maintain competitiveness with current debt levels.

Farmland values

Twice a year, FCC releases its Farmland Values Report, which highlights changes in land values in each province as well as nationally. Farmland values have steadily increased during the last decade. Prior to 2011, the highest average national increase was 7.7% in 2008.

Annual change in farmland values

	Jan. 1 – Dec. 31, 2011	Jan. 1 – Dec. 31, 2010
Canada	**14.8%**	**5.2%**
Alberta	8.7%	4.4%
British Columbia	0.2%	(0.5%)
Manitoba	4.3%	4.7%
New Brunswick	1.3%	2.4%
Newfoundland	0.0%	0.7%
Nova Scotia	6.2%	3.7%
Ontario	14.3%	6.8%
Prince Edward Island	1.5%	3.2%
Quebec	8.9%	3.2%
Saskatchewan	22.9%	5.7%

Overall primary agriculture profitability

While the number of Canadian farms has decreased over the last decade, the total value of production and real net operating income per farm has increased. For most enterprises, 2011 was a profitable year. Compared to 2010, total farm cash receipts (crop and livestock revenues, plus program payments) in 2011 improved for many enterprises, especially grains and oilseeds. Total farm cash receipts increased by 11.2% in 2011, after declining in both 2009 and 2010. Farm cash receipts were higher in every province, with increases ranging between 0.8% in Manitoba to 19.5% in Saskatchewan.

In comparison, farm input costs increased by 9.9% between the third quarter of 2010 and the third quarter of 2011, according to Statistics Canada. Agricultural input prices are expected to continue to increase in 2012, as suggested by leading indicators such as oil and gas prices. Conversely, AAFC's Medium Term Outlook for Canadian Agriculture 2011-2021 and USDA Agricultural Projections to 2021 suggest that crop prices will come down from their 2011 average. This would imply a minor decline in crop producers' profit margins in the next 12 months. Livestock prices are projected to remain above long-term averages, which may support profitability within some sectors of the livestock industry.

The agriculture and agri-food sector faced a number of challenges caused by a strong Canadian dollar, which averaged above parity with the U.S. dollar in 2011. The continued strength of the Canadian dollar makes Canadian products less competitive in world markets. Conversely, the strong Canadian dollar continues to provide an opportunity for businesses to increase productivity by investing in capital improvements.

[i] Statistics Canada, Table 002-0020, Balance sheet of the agricultural sector, at December 31

Trade

In 2011, the federal government made significant progress in improving potential market access abroad for Canadian products. Ongoing and future trade negotiations are likely to create even more trade opportunities for agriculture producers and agribusiness operators.

The federal government expressed its desire to join the Trans-Pacific Partnership in November 2011 as a means to increase trade flows with Asia-Pacific countries and reduce Canada's export dependence on the United States. As a result of the announcement, there has been speculation regarding the future health and protection of the supply-managed sectors.

The World Trade Organization has ruled against the U.S. country of origin labelling (COOL) policy on meat products. The United States has appealed the WTO decision. Until the trade dispute is resolved, COOL will continue to affect livestock exports from Canada to the United States. It is unlikely that this issue will be resolved in 2012.

South Korea is now allowing imports of Canadian beef under the age of 30 months after banning them due to BSE (bovine spongiform encephalopathy) nearly nine years ago. This will help to spur increased demand in 2012, and it is estimated that beef exports could reach $30 million by 2015.

Sector overview

Dairy

Dairy producers in Canada are expected to remain strong and viable. Each year, the Canadian Dairy Commission reviews and, if necessary, adjusts dairy support prices to ensure that dairy producers are receiving a fair price for milk. Due to higher feed and fuel costs, support prices for skim milk powder and butter have increased recently and are expected to offset higher input costs. Looking forward, AAFC's Medium Term Outlook for Canadian Agriculture 2011-2021 forecasts that per capita consumption of whole milk, butter and ice cream will experience declines of over 10% from 2010 to 2015, while yogurt per capita consumption will increase 10% over the same time period.

Poultry

In 2011, demand for chicken increased faster than production primarily due to improvements in the Canadian economy. Canadian chicken consumption increased by 2.3% during the first nine months of 2011 compared to 2010. Over the same time period, chicken production increased by 0.8%.[9]

Trends

Consumers are increasingly preoccupied with food safety, and some interest groups are expressing concern about the treatment of animals. Codes of practice, industry regulations, advances in traceability and transparency are all part of ensuring a sustainable supply-managed industry in Canada. As mentioned above, recent trade talks have led to media coverage about the future of supply management. At this point, it is speculation. Producers remain prudent about how they manage their operations so that they are positioned for future success.

Cattle

Despite the challenges that have resulted from COOL, the beef industry has continued to recover. Both domestic and foreign beef demand was strong in 2011 and to the end of March 2012. The total Canadian cattle inventory, including both dairy and beef cattle, was 0.5% higher – the first increase in seven years. The number of beef cows declined slightly. However, this decrease was more than offset by increases in the number of calves and heifers retained for breeding. Increased heifer retention lowered the number of cattle available for slaughter. The number of beef producers in Canada continued to decline for a number of reasons, including steady increases in production costs and increased competition for acreage. Domestic slaughter was 7.5% lower in 2011 than in 2010, and exports of cattle were 35% lower. Declining North American beef cattle numbers coupled with strong demand generated increases in both cattle prices and profit margins, particularly for cow-calf producers.[10]

[9] Alberta Chicken Producers | www.chicken.ab.ca

[10] www5.statcan.gc.ca/access_acces/alternative_alternatif.action?l=eng&loc=www.statcan.gc.ca/pub/23-012-x/23-012-x2011002-eng.pdf&t=Cattle%20Statistics

Hogs

The hog industry continues to improve as both domestic and foreign demand was strong in 2011 and early 2012. Canadian hog inventories increased marginally in 2011, which was the first time since April 2006. Due to the current low inventory of hogs in Canada, total hog slaughter was down approximately 2% in 2011 compared to 2010, and exports were 1% higher over the same time frame. Reduced overall inventories of hogs in both Canada and the United States have contributed to strengthening prices. High feed and input costs and the strong Canadian dollar relative to the U.S. dollar continue to put pressure on producer profit margins.

Trends

As the price of feed is a key determinant of profitability in the red meats sector, the industry is closely monitoring commodity price volatility with a focus on managing price risk. Based on industry and consumer demand and animal welfare trends in Europe and the United States, hog gestation stalls may be replaced in the future by group housing.

Grains and oilseeds

Grain and oilseed yields and quality for 2011 were average to above average in most of Canada. As a result, most grain and oilseed producers realized the benefit of the strong agriculture commodity prices. However, some areas of Manitoba and southeastern Saskatchewan received above-average precipitation or flooding in 2011 that reduced their total harvested acres.

According to both AAFC's Medium Term Outlook for Canadian Agriculture 2011-2021 and the USDA Agricultural Projections to 2021, prices for grains and oilseeds will be slightly lower than the 2011 record highs, but will remain high in a historical context over the next 10 years. This will be driven by increases in demand for coarse grains and oilseeds by developing countries such as China. Domestically, livestock producers, biofuel manufacturers and vegetable oil crushers also contribute to demand. In 2010, the low carry-over of stocks, natural disasters and production issues in the former Soviet Union and many other parts of the world caused countries, notably China, to build stocks.

As of February 26, 2012, total exports of Canadian grains were 16% higher than the previous crop year, according to the Canadian Grain Commission.

Trends

In 2012, changes to wheat and barley marketing options are top of mind for western Canadian grain producers. Implications to the grain-handling sector are being closely watched as well. Land values and ownership are very much on the minds of crop producers. Unprecedented land values in parts of Canada are affecting decisions to expand or, in some cases, to exit farming.

Horticulture

The Canadian greenhouse industry is strengthening and expected to remain profitable. It relies heavily on exports to the U.S. market and has had to adjust to the high Canadian dollar. The greenhouse industry also faced high energy prices and increased competition from European exporters. The industry responded by increasing its competitiveness by switching to lower-priced natural gas for heating, adapting and incorporating environmental and resource-saving technologies and practices, and building and expanding relationships with retailers. Demand for greenhouse production is expected to grow as customers continue to demand fresh vegetables year round.

Trends

Energy is a key input cost in Canada's greenhouse industry. However, as natural gas prices trended lower in 2011, some operations have moved away from previous plans to expand renewable energy capabilities. Leading-edge technology is generally considered a necessary part of operation in this sector. Greenhouse owners are updating existing infrastructure as a result.

Agribusiness and agri-food

Due to the strong performance of primary agriculture producers, agribusinesses that supply inputs to primary agriculture have experienced strong demand for their products.

The overall performance of agri-food has been mixed as growth in overall Canadian GDP has slowed over the past few quarters. Consumer demand for value-added products is slowly increasing as the Canadian economy and others around the world continue to improve. As a result, there are increased opportunities for agri-food companies. However, these opportunities are not equal across all sectors. Due to the reduction in cattle and hog inventories in both Canada and the United States, competition among meat manufacturing companies has increased. Conversely, fruit and vegetable processing companies have experienced increases in production acres and expanding greenhouse facilities. A strong dollar continues to put pressures on Canadian food processors to increase productivity relative to U.S. competitors.

Trends

One of the most commonly cited issues in the agribusiness and agri-food sector is the growing regulatory challenge that agribusinesses face in bringing products to market and then moving them into global markets. This sector is working to make sense of the changing landscape of Canada's grain-handling industry, seeking to understand the opportunities and challenges posed by alternative wheat and barley marketing options.

Biofuels

On July 1, 2011, it became mandatory in Canada for biodiesel blends to average 2% renewable content in the distillate pool. Ethanol blends remain unchanged from December 2010 at 5%. The benefits to agriculture are increased local market prices and increased farm income, according to the Canadian Renewable Fuels Association. Other benefits include a decreased reliance on agricultural support from governments, a stable market for grains and oilseeds and a forward-pricing market for grain and oilseed producers.

Trends

The Canadian biofuels industry is challenged with understanding the impacts of North American mandates and subsidies and the future impacts of expiration or elimination. FCC's Knowledge Insider on Energy[11] refers to the emergence of a new energy landscape that will contain a mix of renewable and non-renewable energy sources and will focus on sustainability, efficiency and fit-for-purpose innovative technologies.

[11] Knowledge Insider – Energy: Volume 1, Issue 2 | www.fcc-fac.ca/en/learningcentre/knowledge/energy/energy_e.asp

Current and potential impacts for FCC

FCC has experienced significant growth every year for more than a decade. Revenue and administration expenses have grown in relation to FCC product and service offerings and its overall loan portfolio. Over the same period, FCC has realized improvements in efficiency while growing its loan portfolio. These improvements are projected to continue to trend favourably over the next five years. FCC understands the importance of prudent budget practices and sustained financial viability through all economic cycles in order to support customers through good and challenging times. Maintaining strong customer satisfaction and employee engagement are important to the continued success of the corporation in service of the agriculture and agri-food industry.

FCC remains financially strong. Along with $3,730.3 million in equity and loan loss reserves, the corporation has low debt-to-equity ratio and high-quality risk management practices. FCC's portfolio is diversified by enterprise and geography because the corporation finances customers involved in all areas of agriculture across Canada, which reduces risk.

Continued complexity in the agriculture industry translates into a need for enhanced knowledge, technical skills and competencies on the part of customers and FCC employees. FCC offers employees extensive access to sector and market knowledge and offers learning programs and publications free of charge to customers and non-customers.

Producers and agribusiness operators have a strong impetus for innovation and growth, and FCC will continue to provide the support required for success. Agility is a critical attribute for any business operating in this environment. FCC's unique connection to customers, industry, government, academia and business will help ensure that it is attuned to evolving needs, risks and opportunities.

FCC is beginning the next fiscal year in a strong financial position. It will continue to closely monitor external and internal financial trends, assess implications and create proactive strategies to address them. Risk levels will be diligently monitored to ensure that they continue to be within acceptable tolerances.

FCC's commitment to Canadian agriculture is unwavering. The corporation will continue to monitor and respond to economic conditions as needed to achieve its objectives and maintain financial strength.

Strategic overview

As Canada's leading agriculture lender, FCC is advancing the business of agriculture by providing financing, insurance, software, learning programs and other business services to producers and agribusiness and agri-food operations. FCC is financially strong and stable, and serves the industry through all cycles. Our employees are passionate about agriculture and committed to the success of our customers and the industry.

FCC's strategic direction is aligned with the Government of Canada and the 2011 Statement of Priorities received from the Minister of Agriculture and Agri-Food.

Corporate strategy map

FCC uses a corporate scorecard to monitor and measure progress against its corporate strategy. To achieve its vision and deliver on its mission, FCC has developed objectives and strategies that are categorized under four strategic themes:

- financial and risk management
- customer experience
- efficiency and execution
- employee experience

The FCC corporate strategy map illustrates how the 12 five-year strategic objectives within the strategic themes contribute to achieving the FCC vision and mission. The employee experience theme and its related objectives provide the foundation for the other three themes and their objectives.

Vision

The full agriculture value chain believes FCC is "advancing the business of agriculture".
We are "the" place to obtain financial products, services and knowledge tailored to producers and agribusiness operators.

Our customers are advocates of FCC and can't imagine doing business without us.

We are a socially and environmentally responsible corporation.

FCC is an employer of choice everywhere we operate.

We make it easy for customers and employees to do business.

We are financially strong and stable, and invest significantly in the agriculture and agri-food industry.

Mission

To enhance rural Canada by providing specialized and personalized business and financial solutions to farm families and agribusiness.*

Financial and risk management	Customer experience	Efficiency and execution
Enhance financial management	Deliver an extraordinary customer experience	Optimize how FCC conducts business
Increase maturity of enterprise risk management (ERM), including internal control framework	Demonstrate commitment to the agriculture and agri-food industry, with a particular focus on producers and young farmers	Expand channel delivery
Strengthen and leverage FCC's reputation with all stakeholders	Promote agriculture as a dynamic industry that is important to Canada	
	Expand FCC's ability to provide customers with leading-edge knowledge	

Employee experience

Provide an exceptional employee experience	Strengthen leadership capabilities	Expand and enhance employee knowledge

Strategic themes

Five-year objectives

* This is an abridged version of the FCC mission. A complete version is at www.fcc.ca.

Report on corporate performance

Financial and risk management

FCC is financially viable and self-sustaining in the long term, while investing significantly in the agriculture industry and utilizing valuable partnerships.

Critical outcome

In 2020, FCC has a diversified agriculture, agribusiness and agri-food portfolio. The corporation has remained financially viable and self-sustaining, with a strong balance sheet and a return on equity (ROE) of ≥12%.

Summary of results

Over the past decade, FCC has grown its portfolio from $6.6 billion to more than $23 billion and its return on equity from 8.7% in 2001-02 to 20.9% in 2011-12. FCC has a diversified agriculture portfolio with lending in all provinces and sectors of agriculture. FCC continuously monitors the effectiveness of its portfolio diversification and evaluates its risk management practices, instilling confidence that its financial performance will be sustained well into the future. FCC has exceeded most targets under the financial and risk management theme, and projections show that the corporation is well on its way to achieving its long-term strategy, while remaining financially viable and self-sustaining.

Strategic objectives	Performance measures	2010-11		2011-12		Comments	2012-13	2013-14
		Target	Result	Target	Result		Target	Target
Enhance financial management	Net income	$318.4 million	$460.2 million*	$355.8 million	$565.1 million	Exceeded. Primarily due to lower-than-target provision for credit losses related to strong portfolio health, increased volume and other favourable variances.	$445.0 million	$467.7 million
	Return on equity	14.5%	20.4%*	13.9%	20.9%	Exceeded. Primarily due to higher-than-target net income.	13.9%	12.8%
	Debt-to-equity ratio	8.1:1	7.7:1*	6.9:1	7.1:1	Not achieved. Measure has not achieved the year-end target due to increased borrowing required to support higher volumes.	6.2:1	5.8:1
	Portfolio growth	7.7%	8.0%*	3.3%	8.4%	Exceeded. Primarily due to higher-than-target disbursements.	6.1%	6.6%
	To improve financial management practices, FCC conducted research with an external consultant on best practices in managing capital within the financial services industry. With this input, the corporation developed a capital management framework and an implementation schedule has been established for 2012-13. The framework will allow FCC to assess its capital needs on a risk-adjusted basis.							

* Further details on IFRS restatements are described in Note 3 of the Notes to Consolidated Financial Statements.

Strategic objectives	Performance measures	2010-11 Target	2010-11 Result	2011-12 Target	2011-12 Result	Comments	2012-13 Target	2013-14 Target
Increase maturity of enterprise risk management (ERM), including internal control framework	Enterprise risk management (ERM) maturity measure	n/a		Create measure	FCC adopted a new ERM maturity measure based on KPMG's ERM maturity model and methodology. A baseline and targets will be set next fiscal.		Baseline ERM Maturity	Advance ERM maturity per plan
	Risk scoring and pricing system (RSPS) score stated as points[12] (The RSPS model considers three principal sets of risk predictors that model the risk of a loan defaulting)	n/a	n/a	770	804	Achieved. Note: the higher the score, the lower the likelihood customers will default on payments.	Primary[13] – Greater than or equal to 790	Primary – Greater than or equal to 790
							A&A[14] – Greater than or equal to 750	A&A – Greater than or equal to 750
	In 2011-12, FCC continued implementing its ERM framework, including preliminary work on its corporate risk appetite. To mitigate operational risk, the corporation developed an internal control framework policy and adopted a risk and control assessment methodology. In 2012-13, FCC will continue to implement the internal control framework, assess its ERM maturity, conduct a gap analysis and implement plans accordingly.							
Strengthen and leverage FCC's reputation with all stakeholders	Media favourability index[15]	7	9	7	13	Exceeded. In 2011-12, there were 2,930 stories in the media about FCC with a favourability score of 64. The global average for financial institutions is 51.	7	7
		*points above the global average for financial institutions					*points above the global average for financial institutions	
	FCC's national reputation program is a comprehensive, centralized and consistent approach to reputation management. In 2011-12, the corporation implemented the program, assessed current state business requirements and sourced software. FCC also published its first corporate social responsibility report at www.fcc-fac.ca/en/AboutUs/Responsibility/csr_full_report_e.asp.							

Note:

In 2011-12, the venture capital invested measure was removed. However, FCC continues to provide venture capital funding through its partner Avrio Ventures. Additional information on venture capital funding can be found on page 46.

* Further details on IFRS restatements are described in Note 3 of the Notes to Consolidated Financial Statements.

[12] RSPS score: definition on page 125.

[13] Primary = Primary production financing: definition on page 125.

[14] A&A = Agribusiness and agri-food financing: definition on page 123.

[15] Media favourability index: Leger Marketing measures FCC favourability quarterly using numbers, qualitative factors and other criteria. Performance is relative to the global average for financial institutions.

Customer experience

FCC delivers an extraordinary experience to customers, who are passionate advocates of FCC.

Critical outcome

In 2020, FCC continues to deliver an extraordinary experience to customers. As a result, the customer experience index score indicates that two out of three customers (65%) rate their experience with FCC as five out of five.

Summary of results

FCC has defined the customer experience as its key differentiator. The desired result is that customers feel that FCC is relationship-oriented, flexible, knowledgeable about agriculture and committed to the industry. FCC's strong emphasis on how employees deliver service has led to rising customer experience scores (from 53.97% in 2006-07 to 63.56% in 2011-12). This indicates that FCC continues to deliver an extraordinary experience to customers and is on track to meet the 2020 target of 65% of customers rating their experience with FCC as five out of five.

Strategic objectives	Performance measures	2010-11 Target	2010-11 Result	2011-12 Target	2011-12 Result	Comments	2012-13 Target	2013-14 Target
Deliver an extraordinary customer experience	Customer experience index[16]	58.44	61.64	60.00	63.56	Exceeded.	60.50	61.00
	In 2011-12, FCC focused on enhancing the consistency of the customer experience at all locations throughout Canada through a detailed program of data-driven coaching. FCC conducted research through the FCC Vision Panel that helped to identify the three elements that differentiate FCC from all other providers in the market: personal relationship, industry knowledge and flexibility. These serve as the foundation for future customer experience initiatives. In 2012-13, FCC will develop an interactive and online services program. This program will deliver a redesigned website and mobile presence, formally establish FCC's presence on social networks and improve partner online capabilities.							
Demonstrate commitment to the agriculture and agri-food industry, with a particular focus on producers and young farmers	Total lending to young farmers	$1.71 billion	$1.63 billion	$1.48 billion	$1.92 billion	Exceeded. FCC has disbursed over $10.5 billion to young farmers (63,000 loans) over the past seven years.	$1.74 billion	$1.89 billion
	Number of learning program participants	n/a	n/a	10,500	11,457	Exceeded.	11,500	11,750

[16] Customer experience index: this number is derived from customer surveys in areas such as satisfaction, loyalty, advocacy, ease of doing business and service resolution.

Strategic objectives	
Demonstrate commitment to the agriculture and agri-food industry, with a particular focus on producers and young farmers	FCC supports young farmers at every stage of their careers through finance and learning opportunities. FCC's Generation Ag initiative offers support for young farmers through these different stages, including programs for rural youth and ag colleges and universities, as well as flexible options for young farmers. The new Young Farmer Loan, officially launched in April 2012, will enhance FCC offerings to farmers who are under 40 years of age. Loan processing fees will be waived for loans up to a $500,000 maximum. Interest rates will be capped at prime plus 0.5% for the variable rate product. The Transition Loan is designed to assist in farm sales to young farmers, offering flexibility in payment options. FCC guarantees payment to the vendor with an option to disburse payments over five years. Campus programs for the next generation of agriculture include: • the FCC Go Ag! Program, which offers students enrolled in agriculture diploma or degree programs the opportunity to host a speaker for an educational event on their campus • FCC On Campus program, which integrates FCC Management Software learning with the curriculum at several ag colleges and universities across the country • FCC Business Planning Award, which provides a monetary award to agriculture students with the top business plans FCC is also a partner of 4-H Canada, Fédération de la relève agricole du Québec and Association des jeunes ruraux du Québec, as well as national and regional programs such as the Canadian Young Farmers' Forum and Canada's Outstanding Young Farmers' Program. In 2011-12, FCC renewed its commitment to 4-H through a new four-year partnership agreement and $250,000 annually to support 4-H and its annual speaking program. When challenges arise in the agriculture industry, FCC works with customers to provide support, as needed, such as flexible payments on existing loans and community crisis relief. In 2011-12, FCC proactively provided $37,000 to support community disaster-relief projects, mostly due to extreme flooding experienced by rural communities. FCC also helps customers who experience personal crises such as fire or critical illness with the FCC Ag Crisis Fund. In 2011-12, FCC helped 179 customers through short-term crises with $248,750 in support. In 2011-12, the FCC AgriSpirit fund provided $1 million to 120 rural community enhancement projects across Canada. Since 2006, FCC has offered a venture capital fund to Canadian agriculture to stimulate investment. In 2011-12, the corporation formalized an agreement to commit an additional $50 million to the industry through Avrio Fund II.
Promote agriculture as a dynamic industry that is important to Canada	Agriculture is a highly complex and globally competitive industry that is a vital and vibrant component of the Canadian economy. In 2011-12, FCC conducted research that revealed that both industry producers and the general public have less-than-positive perceptions about agriculture. There is a need to revitalize the industry and help shift perceptions. Through Agriculture More Than Ever, FCC plans to encourage farmers and other stakeholders to raise awareness about the importance of the agriculture industry. This is a multi-year initiative targeting industry, producers and the general public. More information is available at www.agmorethanever.org.
Expand FCC's ability to provide customers with leading-edge knowledge	FCC works to continually enhance employee knowledge, skills and experience to better serve its customers. In 2011-12, FCC provided webinars outlining knowledge expectations for employees, along with support and coaching tools. FCC's Knowledge Management team provided over 100 customized knowledge packages for employees to share with customers. Custom knowledge packages are tailored to the customer or prospect with information on their industry, questions to ponder and sources for more information. FCC produced two Knowledge Insider publications – one on globalization and the other on the bioeconomy – which were also posted on the FCC website.

Efficiency and execution

FCC's agility in decision-making processes and technical operational infrastructure makes it easy for customers and employees to do business.

Critical outcome

In 2020, FCC continues to be recognized as a highly efficient, effective and agile organization that is easy to do business with. The corporation has an efficiency ratio of 45% or lower.

Summary of results

FCC continues to identify ways to maximize corporate performance as it progresses to 2020. Two key measures indicate that FCC is headed in the right direction: FCC's efficiency ratio continues to improve; it decreased from nearly 60% in 1999 to 33.4% in 2012. FCC consistently attains its "easy to do business" indicators (increased from 74% in 2007 to 83% in 2012), which is to be greater than or equal to the average of the top 50 Canadian employers. This indicator measures how efficiently and effectively employees feel that they can accomplish their work. In addition, the business process and technology transformation program (BK) will enhance speed, reduce manual effort and provide the corporation with the capability to enhance agility in the technology arena.

Strategic objectives	Performance measures	2010-11 Target	2010-11 Result	2011-12 Target	2011-12 Result	Comments	2012-13 Target	2013-14 Target
Optimize how FCC conducts business	Efficiency ratio[17]	41.6%	35.7%*	41.6%	33.4%	Exceeded. Primarily due to lower-than-target administrative expenses, compounded by favourable variances in net interest income and other income.	37.1%	37.0%
	Employee engagement index – easy to do business indicators[18]	Greater than or equal to the average of top 50 employers (2010 average: 78%)	79%	Greater than or equal to the average of top 50 employers	83%	Exceeded. The 2011 average score for Canada's top 50 employers was 78%.	Greater than or equal to the average of top 50 employers	Greater than or equal to the average of top 50 employers

* Further details on IFRS restatements are described in Note 3 of the Notes to Consolidated Financial Statements.

[17] Efficiency ratio: definition on page 124.

[18] FCC compares its performance to the average of the top 50 employers as measured by the Aon Hewitt Best Employers in Canada annual study. Easy to do business indicators include co-workers, physical work environment, resources, work processes and work tasks.

Strategic objectives	
Optimize how FCC conducts business	FCC regularly challenges all areas of the corporation to find better ways to do business and meet customer expectations with respect to service delivery and speed. The most significant initiative in 2011-12 was the business process and technology transformation program (BK). The BK program will streamline and automate many business processes and support lending activities with more flexible technology. Although good progress was made in 2011-12, the program is behind schedule. As of March 31, after 63 months of operation, the BK program has spent $56.2 million and is 93% complete. The program experienced delays due to the complexity of defects and of highly integrated testing requirements. As a result and to ensure a high-quality product, the team retested all program components independently while fixing associated defects. The updated release date for the program is August 2012. The BK program remains aligned with our corporate business strategy. The external firm engaged by FCC has a fixed-bid contract, which means that their additional work is being performed at the same cost as originally contracted. The delays being experienced will not affect FCC's ability to meet its objectives as set out in the 2012-17 Corporate Plan, and the business case remains sound. FCC is committed to adhering to the spirit and intent of the federal government's deficit reduction action plan. In 2011-12, FCC moved forward on initiatives resulting from an optimization review undertaken to enhance the corporation's efficiency and effectiveness. Progress included changes to the travel and expense policy to align with Treasury Board of Canada Secretariat policies; and implementation of a Learning Management System and a Learning Content Management System that provide more online training opportunities and a central location for learning content; webinars being used rather than face-to-face meetings to reduce travel expenses; changes to processes for contracting outside services; changes to processes for mail preparation to reduce external service expenses; and, lower negotiated postage and courier rates. An Information Technology optimization project compiled a list of 21 short- and medium-term projects to be implemented in 2012-13.
Expand channel delivery	The channel delivery work ensures that the sales channel used by individual customers meets their needs efficiently and effectively. As part of the overall integrated channel strategy, FCC explored options for processing more loans through the Customer Service Centre (CSC). As a result, a national rollout to begin processing real property loans through the CSC was completed in 2011. As of March 31, 2012, the CSC had processed 312 real property loan applications, totalling $34.3 million.

Note:

In 2011-12, the project management maturity measure was removed at the corporate level as it is now a key measure at the operating level.

Employee experience

FCC is an employer of choice with a high-performance culture and strong employee engagement, which brings out the best in employees at all levels.

Critical outcome

In 2020, FCC continues to be an employer of choice with a culture that inspires employees to deliver an extraordinary customer experience. FCC's employee engagement score is greater than or equal to the average of the 50 Best Employers in Canada.

Summary of results

Research consistently shows that engaged employees deliver better customer service. This is why ensuring a positive employee experience is so important. FCC has already met the 2020 critical outcome and plans to sustain this performance in the future. This is evidenced by the fact that the employee engagement index and related scores have consistently been above the engagement score of the 50 Best Employers in Canada.

Strategic objectives	Performance measures	2010-11		2011-12		Comments	2012-13	2013-14
		Target	Result	Target	Result		Target	Target
Provide an exceptional employee experience	Employee engagement index[19]	Greater than or equal to the average of the top 50 employers (2010 average: 78%)	82%	Greater than or equal to the average of the top 50 employers	84%	Exceeded. The 2011 average score for Canada's top 50 employers was 78%.	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers
	FCC believes that a positive employee experience leads to an extraordinary customer experience. In 2011-12, FCC developed a three-year strategy to deepen the internal culture. FCC also launched a new online recognition system. In 2012-13, tactics associated with FCC's diversity strategy and employment equity plan will be implemented.							
Strengthen leadership capabilities	Employee engagement index – employee experience indicators[20]	Greater than or equal to the average of the top 50 employers (2010 average: 74%)	75%	Greater than or equal to the average of the top 50 employers	81%	Exceeded. The 2011 average score for Canada's top 50 employers was 75%.	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers
	Leadership index[21]	Greater than the average of the top 50 employers (2010 average: 71%)	73%	Greater than the average of the top 50 employers	78%	Exceeded. The 2011 average score for Canada's top 50 employers was 72%.	Greater than the average of the top 50 employers	Greater than the average of the top 50 employers
	Stellar leadership enhances the employee experience by inspiring performance, developing employees and ensuring that FCC continues to run a successful business. In 2011-12, 19 new leaders completed the Leadership Excellence program and all 26 eligible leaders completed the Five Leadership Principles program. All new and existing leaders have now completed these two programs.							

[19] FCC compares its performance to the average of the top 50 employers as measured by the Aon-Hewitt Best Employers in Canada annual study.

[20] Employee experience indicators include the average scores from the following measures: career opportunities, learning and development, intrinsic motivation, managing performance and work/life balance.

[21] Leadership indicators take the average score from the following drivers to calculate the leadership index score: senior leadership, manager, recognition, career opportunities and managing performance.

Strategic objectives	Performance measures	2010-11 Target	2010-11 Result	2011-12 Target	2011-12 Result	Comments	2012-13 Target	2013-14 Target
Expand and enhance employee knowledge	Learning measure	n/a	n/a	Establish measure		After a thorough investigation, it was determined that a meaningful measure could not be established.		
	FCC's learning strategy consists of two main components: the Lending Essentials program that includes training to develop the skills and knowledge necessary for employees to serve customers and an initiative to improve employee access to specialized agriculture and financial knowledge via the intranet, Internet, collaboration tools and podcasts. An in-depth review of the Lending Essentials program in 2011-12 resulted in several enhancements, including the completion of individual learning plans for customer-facing employees and the development of a coaching strategy to ensure that employees are equipped with the required knowledge and skills to meet customer needs.[22]							

[22] Enhancements to the Lending Essentials program include the completion of individual learning plans for field employees, development of a coaching strategy, expansion of the program to include alliances and the Customer Service Centre, and migration of the initial 14 modules of Credit Policy training to the Learning Management System.

Financial performance review

Financial performance versus plan

Each year as part of its strategic planning process, FCC develops a comprehensive corporate plan, which includes targets for various financial measures for the coming fiscal year. The chart below provides a comparison of the actual outcomes against key plan targets for 2011-12.

(millions of dollars unless otherwise noted)	2012 Actual	2012 Plan
Portfolio growth		
Loans receivable	23,202.3	21,447.8
Loans receivable growth (%)	8.4	3.3
Net disbursements	7,116.8	5,386.7
Performance by non-lending business lines		
FCC Ventures		
Investments – cost	64.1	77.1
Investments – fair value	53.5	65.5
FCC Management Software		
Net sales revenue	1.9	1.9
FCC Insurance		
Insurance premium revenue	20.2	19.3
Net insurance income	11.9	9.6
Profitability		
Net interest income	797.3	738.9
Net interest margin (%)	3.44	3.37
Credit quality		
Impaired loans	285.1	300.3
Provision for credit losses	1.8	88.7
Allowance for credit losses	622.1	665.1
Efficiency		
Administration expense	283.5	312.2
Efficiency ratio (%)	33.4	41.6
Shareholder return		
Net income	565.1	355.8
Return on equity (%)	20.9	13.9

2011-12 was a strong year for FCC with all major financial measures exceeding plan targets. Record disbursements, favourable borrowing rates, continued improvement in the health of the portfolio, solid expense management and a large gain on the sale of a venture capital investment resulted in net income of $565.1 million compared to the plan target of $355.8 million.

Financial performance versus prior year and outlook

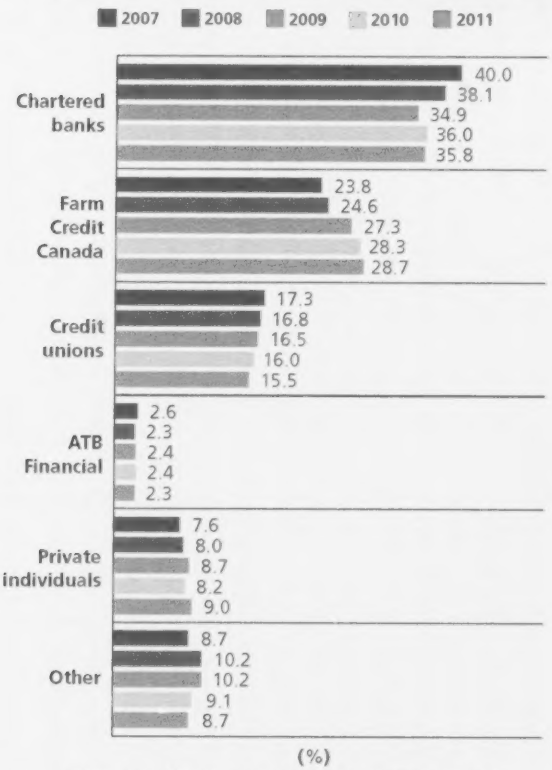
The remainder of the performance review section of the MD&A provides a review of year-over-year performance as well as FCC's expectations for 2012-13.

Portfolio growth

Market share

According to Statistics Canada, farm debt outstanding increased by 6.3% to $69.6 billion in 2011. FCC increased its market share by 0.4% to 28.7% in 2011. FCC's proportion of Canada's farm debt outstanding of $20.0 billion remains second to the chartered banks at $24.9 billion.

Market share as at December 31*



*Historical results are updated annually by Statistics Canada.

Lending activity

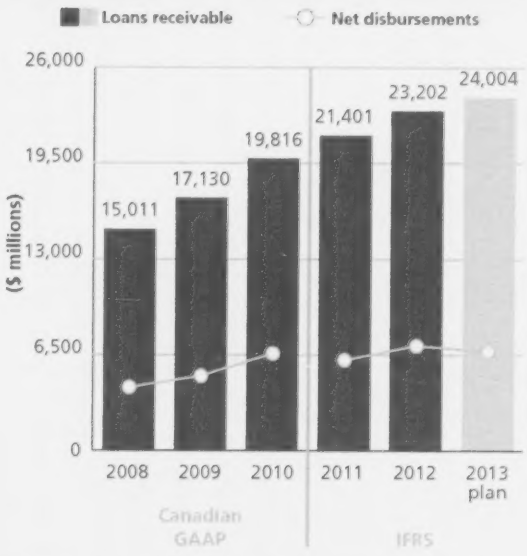
FCC's lending activity is conducted through its three business lines: primary production financing, agribusiness and agri-food financing, and FCC Alliances (refer to the Business Lines section on page 44).

In 2011-12, FCC experienced its 19th consecutive year of growth. Loans receivable increased by $1,801 million from $21,401 million in 2010-11 to $23,202 million in 2011-12. Loan portfolio growth was 8.4%, which is up from 2010-11 due to higher disbursement levels. Net disbursements increased compared to the prior year by $964 million, or 15.7%, to $7,117 million. Offsetting some of the portfolio growth was a 0.5% decrease in renewal rates to 97.2%, increased principal payments, and a 1.1% increase in prepayments to 6.5%.

The primary driver behind the growth in loans receivable was disbursements to primary producers in all major agriculture enterprises. Primary production and FCC Alliances financing constituted 84.9% of FCC's net disbursements in 2011-12.

Growth is expected to slow in 2012-13, with loans receivable increasing by 3.5% or $802 million. This can be attributed to a projected reduction in net disbursements of $355 million to $6,762 million. Renewal and prepayment rates are expected to decrease to 97.0% and 6.3% respectively.

Loans receivable*



*Loans receivable for 2008 through 2010 have been restated as a result of prior period adjustments.

Portfolio growth by enterprise

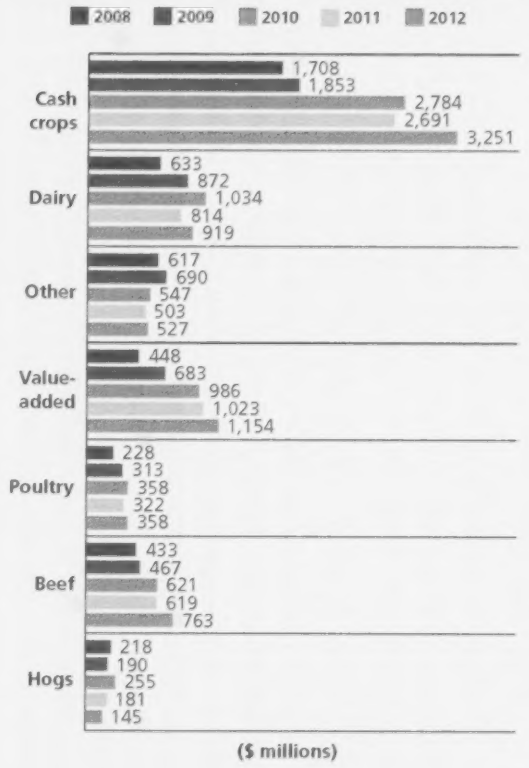
FCC lends to all agriculture enterprises, which diversifies its lending portfolio and reduces concentration risk. This practice aligns with the financial viability and enterprise risk strategic theme, since it helps FCC effectively manage risk and ensure its long-term viability.

In 2011-12, net disbursements increased, compared to the previous year, in all major enterprises except hogs, which experienced a decline of 19.9%. The most significant increase in net disbursements was in cash crops, which experienced an increase of $560 million.

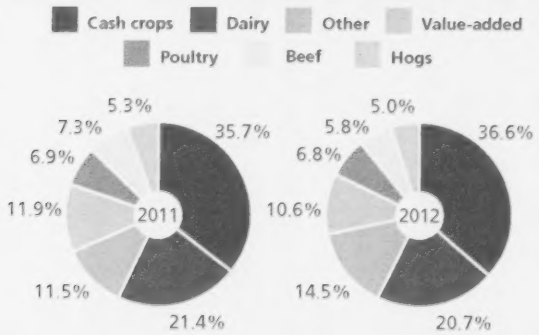
The positive impact to loans receivable from increased net disbursements in most major enterprises relative to 2010-11 was somewhat lessened due to increases in other portfolio activities, including increased principal prepayments and net repayments. However, FCC still experienced loans receivable growth in all sectors with the exception of beef and value-added. The beef and value-added sectors decreased to 5.8% and 10.6% of total loans receivable. The largest loans receivable year-over-year growth was in the cash crops and other sectors. Their respective shares of total loans receivable increased from 35.7% to 36.6% and 11.5% to 14.5%.

Cash crops continued to be the largest portion of FCC's loans receivable and net disbursements in 2011-12, representing 36.6% of total loans receivable.

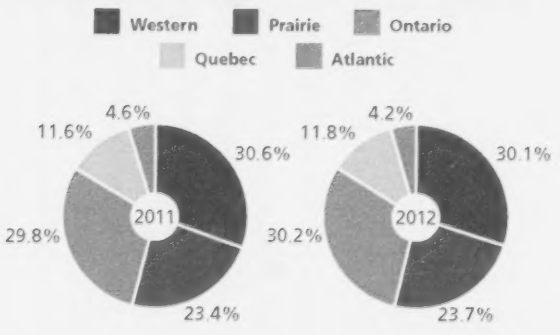
Net disbursements by enterprise



Loans receivable by enterprise



Loans receivable by area



Portfolio growth by geographic area

By lending to all agriculture sectors across Canada, FCC spreads risk geographically while promoting agriculture as a strong and vibrant industry.

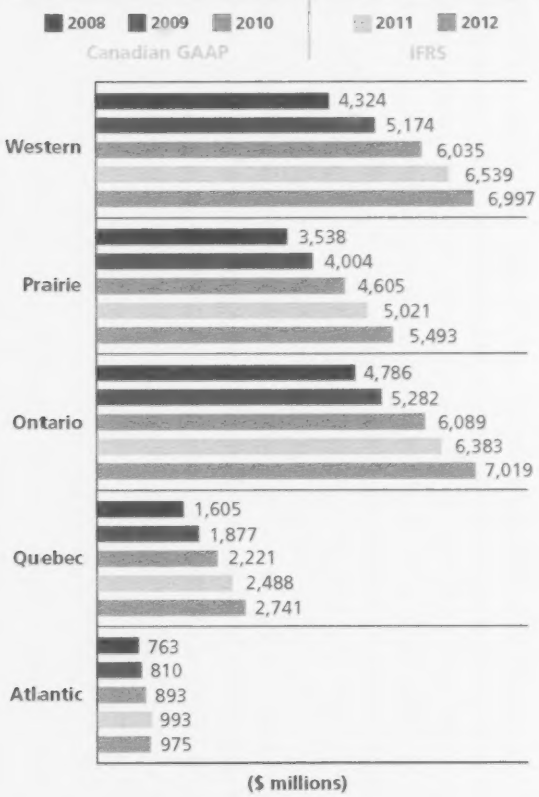
In 2011-12, FCC experienced loans receivable growth in all of its sales areas across Canada with the exception of Atlantic. The largest loans receivable growth areas were Quebec and Ontario, which experienced 10.2% and 10.0% growth respectively.

In 2011-12, net disbursements increased in the Western, Prairie and Ontario areas and decreased in the Quebec and Atlantic areas. The largest increase was in the Ontario area where net disbursements increased by 30.5%.

The Western and Prairie areas comprised over half of net disbursements and 53.8% of loans receivable. Their overall proportion of net disbursements increased by 1.5% to 59.4% from 2010-11.

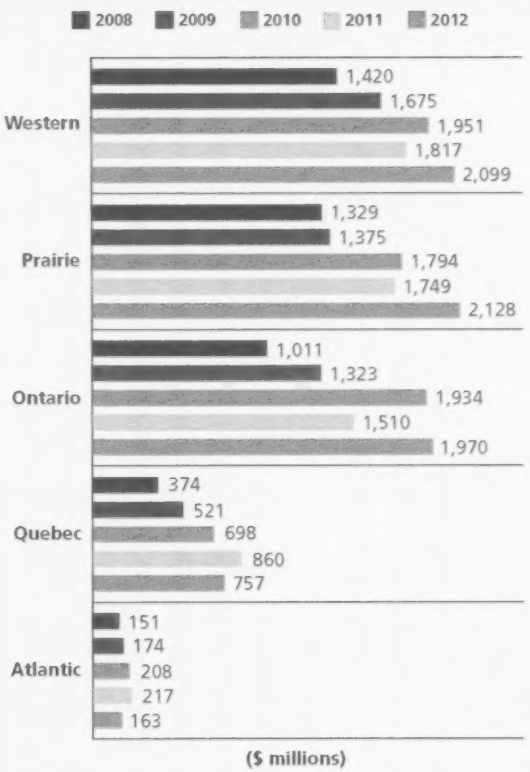
The Western area was the largest individual contributor to loans receivable in 2011-12, even though its respective share decreased by 0.5%. The respective share of the Ontario area increased by 0.4%.

Loans receivable by area*



*Excludes deferred loan fees.
†Loans receivable for 2008 through 2010 have been restated as a result of prior period adjustments.

Net disbursements by area



Business lines

FCC offers a combination of financing, insurance, information and learning products and services, and management software to approximately 100,000 customers across Canada through its various business lines:

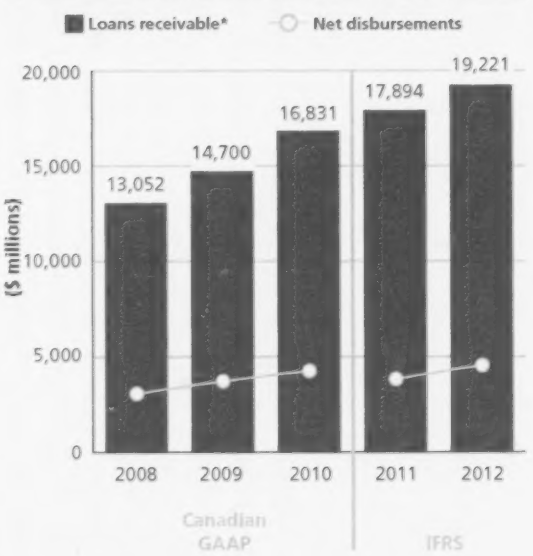
- primary production financing
- agribusiness and agri-food financing
- FCC Alliances
- FCC Ventures
- FCC Insurance
- FCC Learning
- FCC Management Software

Each business line has specific products tailored to address the needs of Canadian agriculture. Lending products include standard loans with variable or fixed interest rates and many term, amortization and payment frequency options. FCC also offers lending products that include features such as principal payment and/or interest deferral, secured and unsecured revolving loans that can be paid down and re-advanced as needed, interest rates tied to customer credit quality and customized payment schedules linked to typical sector-based cash flow patterns. Lending is available for real and personal property purposes through both loans and leases.

Primary production financing provides loans to primary producers and is FCC's largest business line. Customers with loans under this business line produce raw commodities in various enterprises such as crops, beef, hogs, poultry, sheep and dairy, as well as fruits, vegetables and alternative livestock. This business line also includes, but is not limited to, lending to vineyards, greenhouses, forestry and aquaculture.

Primary production comprised 82.8% of FCC's total loans receivable balance in 2011-12. Loans increased $1,327 million, resulting in a portfolio of $19,221 million. The rate of loans receivable growth increased to 7.4% from 6.3% the previous fiscal year. The primary driver in 2011-12 was the increase in net disbursements of 18.7% to $4,543 million.

Primary production financing



*Excludes deferred loan fees.
†Loans receivable for 2008 through 2010 have been restated as a result of prior period adjustments.

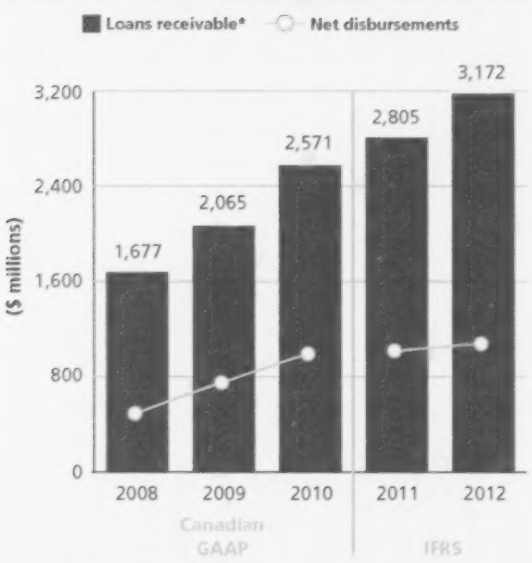
Agribusiness and agri-food financing provides loans to customers who support primary producers. These customers are typically suppliers or processors who sell to, buy from or otherwise serve primary agriculture producers. These customers include, but are not limited to, equipment manufacturers and dealers, input providers, wholesalers, marketing firms and processors.

Agribusiness and agri-food financing showed loans receivable growth of 13.1% to $3,172 million in 2011-12. Net disbursements increased by 5.8% to $1,078 million.

FCC Alliances is the largest contributor to FCC's point-of-sale business line, including financing for equipment, crop inputs and livestock. It lends to agriculture customers through a network of external agriculture or financial organizations including equipment dealers, crop input retailers, livestock operators and manufacturing partners. Through this network, FCC is able to provide efficient and effective products and services to their customers.

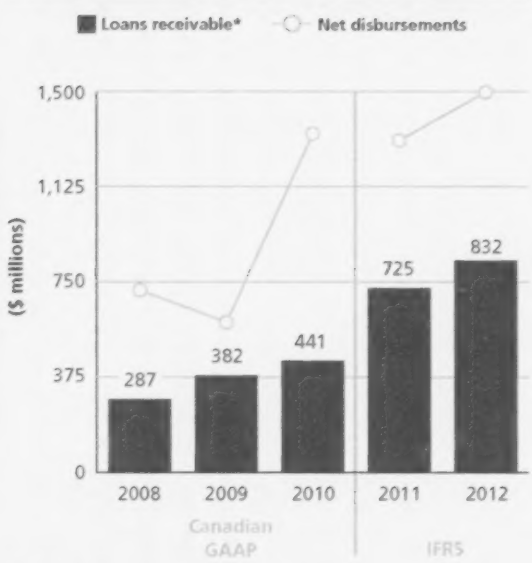
FCC Alliances showed loans receivable growth of 14.8% to $832 million in 2011-12. Net disbursements increased by 14.5% to $1,496 million. Disbursements during the year exceeded loans receivable at the end of the year due to the short-term nature of the lending products in this business line.

Agribusiness and agri-food financing



*Excludes deferred loan fees.
Loans receivable for 2008 through 2010 have been restated as a result of prior period adjustments.

FCC Alliances



*Excludes deferred loan fees.
Loans receivable for 2008 through 2010 have been restated as a result of prior period adjustments.

FCC Ventures is the corporation's venture capital business line, focused on addressing the need for alternative financing in the agriculture industry.

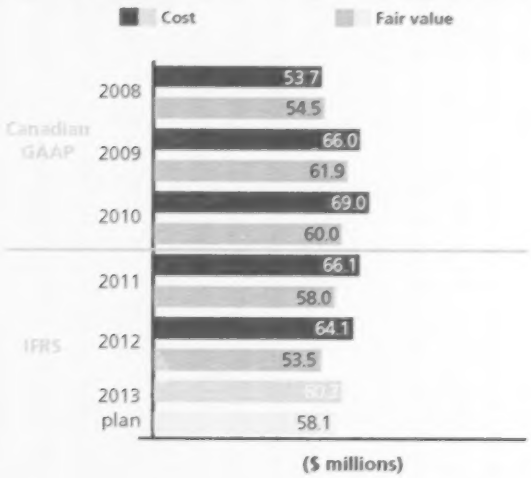
The venture capital portfolio includes direct investments held by FCC (FCC Fund) and investments held in two limited partnership funds managed by Avrio Ventures (Avrio Fund I & Avrio Fund II). The FCC Fund is closed and is winding down as investments are exited.

The investment objectives of the Avrio funds are focused on commercialization-to-growth or recapitalization of mature businesses in the industrial bio-products, nutraceutical ingredient, food and agricultural technology sectors. Avrio Fund I is now closed and future investments are limited to follow-on funds that may be required by existing investee companies. New investments will be made by Avrio Fund II, which was launched in April 2011 with a $50 million capital commitment from FCC. Additional capital from other investors is expected to be committed to this fund early next fiscal year.

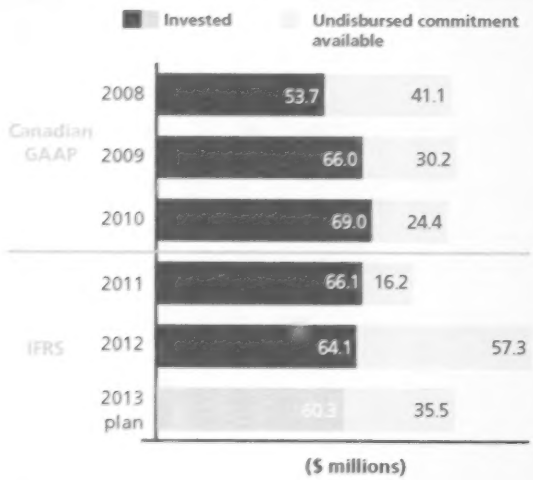
In 2011-12, FCC Ventures earned $33.1 million in income, primarily related to an investment gain on the sale of an investee company held in the FCC Fund. During the year, $8.5 million was invested bringing the total funding provided to the agriculture industry since inception of FCC Ventures to $118.3 million. In addition, co-investment partners have contributed another $173.6 million to the industry since inception. Further detail of the investment carrying value amounts can be found in Note 9 and Note 19 of the Notes to Consolidated Financial Statements.

The venture capital portfolio is expected to decrease slightly in the next year as maturity and divestiture of existing investments is expected to outpace the placement of new investments. FCC Ventures is pursuing investment in other funds in 2012-13 to further expand its venture capital offering to the industry.

Venture capital investments



Venture capital commitments



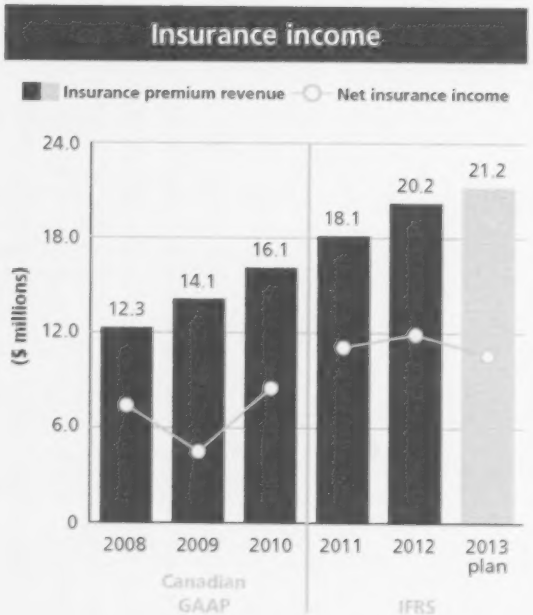
Venture capital investments outstanding at fair value

($ millions)	FCC Fund	Avrio Fund I	Avrio Fund II	Total
Balance March 31, 2011	$18.7	$39.3	$0.0	$58.0
Investments during the period	$0.0	$5.0	$3.5	$8.5
Repayments and divestitures during the period	($10.6)	$0.0	$0.0	($10.6)
Change in fair value	($5.3)	$2.7	$0.0	($2.6)
Change in accrued interest	($0.4)	$0.4	$0.2	$0.2
Balance March 31, 2012	$2.4	$47.4	$3.7	$53.5

FCC Insurance offers creditor life and accident insurance to provide protection to customers, their businesses and their families. Sun Life Assurance Company of Canada administers FCC's insurance programs.

Life insurance premiums, net of claims, contribute directly to FCC's net income. Insurance premium revenue has increased consistently over the last several years as a result of FCC's growing portfolio and specific emphasis on insurance coverage as part of a customer's complete loan package. Insurance premium revenue increased to $20.2 million in 2011-12, compared to $18.1 million in 2010-11. Net insurance income varies from year to year depending on the claims paid. In 2011-12, total incurred claims were $8.3 million, compared to $7.0 million the previous fiscal year, resulting in net insurance income of $11.9 million, compared to $11.1 million in 2010-11.

In 2012-13, insurance premium revenue is expected to increase by 5.0% as a result of continued portfolio growth, while net insurance income is expected to decrease by 10.9% as claim expenses are expected to normalize in 2012-13.



FCC Learning is FCC's information and learning program. It supports the corporation's commitment to continued investment in agriculture. In 2011-12, 11,457 people attended 172 core FCC Learning events, and 15,669 people participated in 93 events in FCC partner programs. FCC's e-learning program, which launched in July 2011, had 55,742 video views.

FCC offers several learning products aimed at addressing the increasingly sophisticated knowledge needs of primary producers and agribusiness operators. These products include:

- management workshops and learning tours
- FCC Forums
- partnership programs with industry partners
- AgriSuccess bi-monthly magazine
- FCC Express weekly email newsletter
- e-learning videos, webinars and podcasts

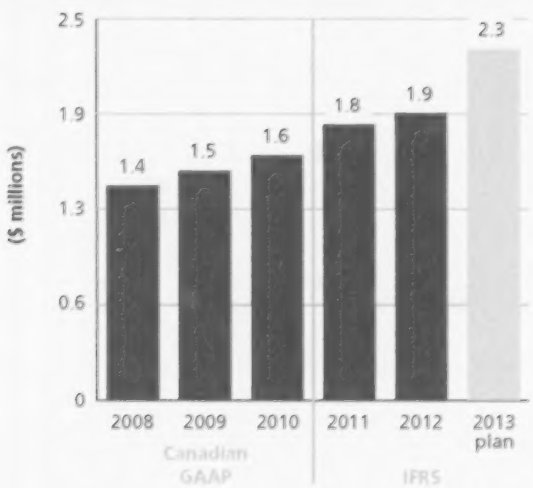
In 2012-13, FCC Learning is moving forward with a combination of e-learning and face-to-face events to meet the ever-changing business management needs of the agriculture industry.

FCC Management Software is focused on developing, promoting and improving farm management software for the Canadian agriculture industry.

FCC Management Software packages support the business of agriculture by providing valuable solutions to farmers that will help their success and viability. Its products include AgExpert Analyst, Field Manager PRO and Field Manager PRO 360. AgExpert Analyst is financial management software designed specifically for farmers. Field Manager PRO is a field record-keeping system for all types of crops. Field Manager PRO 360 has all the record-keeping advantages of Field Manager PRO with the additional ability to provide GIS imagery and to capture data from equipment with a GIS system.

In 2011-12, net sales revenue, including product support, increased by 5.6% to $1.9 million and is expected to reach $2.3 million in 2012-13 due to increased revenue expected from sales of Field Manager PRO 360.

Net sales revenue



Profitability

Net interest income and margin

Changes in net interest margin, along with changes in portfolio volume, are primarily responsible for the increase in net interest income. The net interest margin must cover credit risk and administration expenses, as well as yield a return sufficient for the corporation to fund future growth.

The following table contains historical interest rate spreads and net interest margins. Interest rate spreads are the difference between the interest rates earned on interest-earning assets and the interest rates paid on interest-bearing liabilities.

Net interest margin

	IFRS				Canadian GAAP					
	2012		2011		2010		2009		2008	
($ millions)	Average balance	Rate	Average balance	Rate	Average balance	Rate	Average balance	Rate	Average balance	Rate
Earning assets:										
Fixed loan principal balance	7,173.4	5.52%	6,388.1	6.01%	6,569.4	6.27%	7,170.2	6.50%	6,601.5	6.63%
Variable loan principal balance	14,835.5	3.96%	13,921.7	3.72%	11,769.9	3.09%	8,562.1	4.89%	7,523.8	6.84%
Investments	1,017.6	1.05%	995.9	0.80%	874.4	0.27%	711.1	2.49%	645.5	4.44%
Venture capital investments	50.0	4.81%	50.1	3.13%	57.8	6.06%	57.2	6.06%	54.4	6.44%
Total earning assets	23,076.5	4.44%	21,355.8	4.42%	19,271.5	4.17%	16,500.6	5.58%	14,825.2	6.72%
Total interest-bearing liabilities	19,907.6	1.14%	18,653.9	1.04%	16,918.4	1.15%	14,440.3	2.86%	12,879.0	4.36%
Total interest rate spread		3.30%		3.38%		3.02%		2.72%		2.36%
Impact of non-interest bearing items		0.14%		0.12%		0.14%		0.33%		0.58%
Net interest margin		3.44%		3.50%		3.16%		3.05%		2.94%

In 2010-11, there were several increases to the Bank of Canada overnight rate, which increased FCC's average variable interest rates. Since the Bank of Canada rate increases were staggered in 2010-11, the impact was not fully reflected in FCC's earning assets until 2011-12. Rates on fixed-rate lending decreased in 2011-12 relative to 2010-11 as new and renewing loans came into the portfolio at lower rates. Fixed interest rates decreased over the past few years due to the slow economic recovery. Interest rates on total earning assets increased from 2010-11 to 2011-12, primarily due to the impact of the staggered Bank of Canada rate increases on variable interest rates. The interest rates on FCC's debt increased due to increased borrowing costs, but was partially offset by reduced interest expenses arising from debt repurchases. In 2011-12, FCC repurchased an additional $59.3 million in capital market-debt which increased the current year expense by $10.9 million. This was more than offset by the $19.0 million reduction in expenses related to the amortization of fair value gains resulting from cumulative debt repurchases that occurred in prior years. The net impact in 2011-12 of all prior debt repurchases is an increase in net interest income of $8.1 million.

The following table outlines the year-over-year increases to net interest income and the changes caused by changes in portfolio volume and net interest margin.

FCC experienced growth over the previous year in net interest income. Net interest income increased by 6.3% to $797.3 million, and average total assets increased by 8.2% to $23,171.0 million due to the increase in loans receivable. Net interest margin saw a slight decrease of 0.06%. Net interest margin is expected to drop further to 3.41% in 2012-13. This is due to both an expected decrease in lending margins and an increase in the cost of debt relative to the lending rates. Even though FCC's margin decreased slightly in 2011-12, FCC's borrowing costs remained low as demand for government debt continued to remain strong. In 2012-13, interest rates and competition are anticipated to increase, resulting in decreased lending margins.

Net interest income and margin

	IFRS			Canadian GAAP		
($ millions)	2013 Plan	2012	2011	2010	2009	2008
Net interest income	829.6	797.3	750.1	609.9	508.0	434.4
Average total assets	24,303.5	23,171.0	21,423.7	19,291.2	16,649.9	14,764.7
Net interest margin (%)	3.41	3.44	3.50	3.16	3.05	2.94
Year-over-year change in net interest income due to:						
Increases in volume	35.5	57.2	–*	77.3	40.0	32.8
Changes in margin	(3.2)	(10.0)	–	24.6	33.7	(14.1)
Total change to net interest income	32.3	47.2	–	101.9	73.7	18.7

* Data from 2010 and 2011 is not comparable due to the transition to IFRS.

Non-interest income

Other income of $51.1 million was generated through its non-lending business lines, including FCC Ventures, FCC Insurance and FCC Management Software products and support sales. The $35.1 million increase over the prior year was primarily due to a $34.0 million gain on the sale of a venture capital investment. It is anticipated that further gains of approximately $7.1 million will be realized in future periods, subject to fulfilment of certain conditions of the sale agreement. Non-interest income is projected to normalize and is expected to be $12.9 million in 2012-13.

Credit quality

As part of FCC's strategy to deliver an extraordinary customer experience and support Canadian agriculture, the corporation continually monitors its portfolio and the industry to proactively identify and develop solutions to help customers through difficult times. FCC has developed customized programs to assist sectors experiencing unexpected challenges. FCC also provides several products that have payment deferral options, providing flexibility in payments to support customers in challenging times as well as in times of opportunity.

While these payment schedule adjustments are used to assist customers, it is important to note that customer assistance programs and payment deferral options may understate the impact of economic events on impaired loans. These programs offer the customer increased payment flexibility in a variety of ways, including enabling the customer to amend the payment schedule on a loan. The number of customers using these support programs and deferral options is closely monitored to gauge the overall health of the portfolio and ensure that proper risk management practices are employed.

FCC has sound business practices in place for analyzing credit quality and monitoring loans in arrears and impaired loans. From this analysis, FCC can better assess the appropriate level of allowance for credit losses and determine whether its risk is within the acceptable tolerances. In addition to the allowance for credit losses, FCC has the ability to withstand further losses due to its strong equity position.

The following discussion focuses on the impaired loans measure as it captures loans that have been in arrears for more than 90 days and have insufficient security to cover the balance owing on the loan.

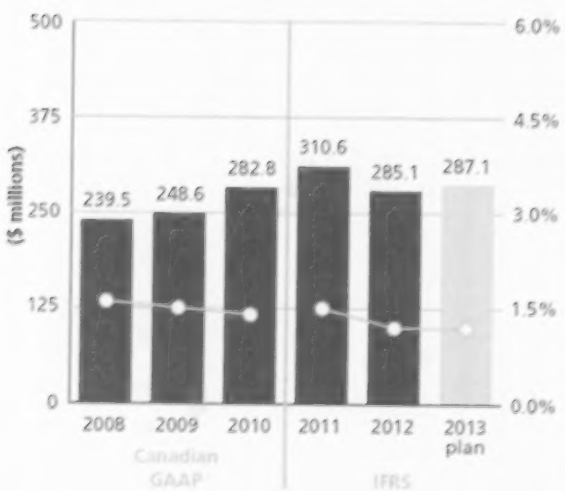
Impaired loans

In 2011-12, impaired loans decreased by $25.5 million from the previous fiscal year to $285.1 million. Impaired loans as a percentage of loans receivable decreased by 0.3% to 1.2%. In 2012-13, impaired loans are projected to increase by $2.0 million to $287.1 million due to growth in loans receivable.

At an enterprise level, cash crops and value-added enterprises experienced the largest year-over-year decreases of $28.5 million and $26.9 million respectively. Impaired loans for hogs experienced the largest year-over-year increase of $42.1 million to $104.9 million.

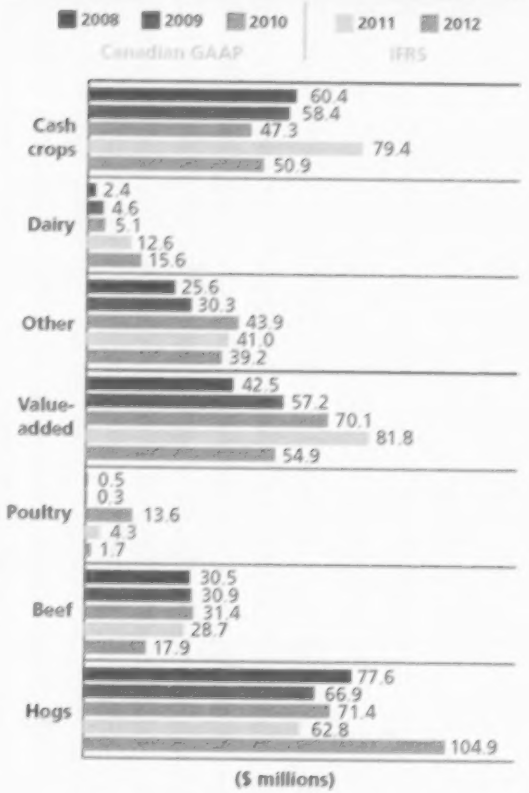
FCC customer support programs, discussed in the credit quality section, give FCC the opportunity to proactively provide support to individual customers and enterprises during financial difficulties. In 2011-12, FCC made 1,684 payment schedule adjustments, 241 of which were part of its enterprise-specific support programs. Payment schedule adjustments as a percentage of total loans receivable increased slightly to 3.4% in 2011-12.

Impaired loans*



*Impaired Loans for 2008 through 2010 have been restated as a result of prior period adjustments.

Impaired loans by enterprise*



*Impaired Loans for 2008 through 2010 have been restated as a result of prior period adjustments.

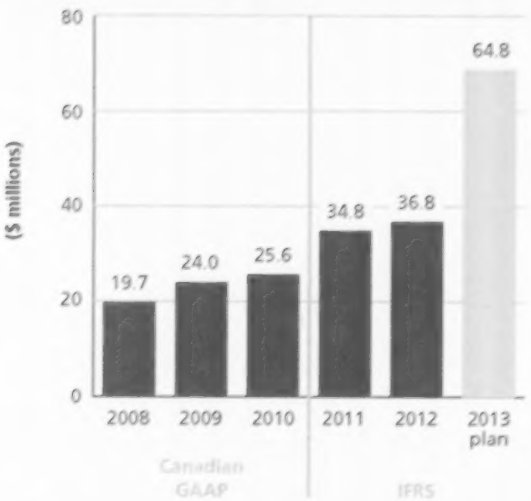
Writeoffs

Loan amounts deemed uncollectible by management are considered in default and may result in full or partial writeoffs, depending on the level and value of security on hand.

In 2011-12, the amount of writeoffs, net of recoveries, increased slightly to $36.8 million. However, writeoffs as a percentage of loans receivable remained low at 0.2%.

In 2012-13, writeoffs are projected to increase by $28.0 million to $64.8 million due to growth in loans receivable. Writeoffs as a percentage of loans receivable are expected to increase to 0.3%. Additional losses may be realized as a result of ongoing economic conditions.

Writeoffs*

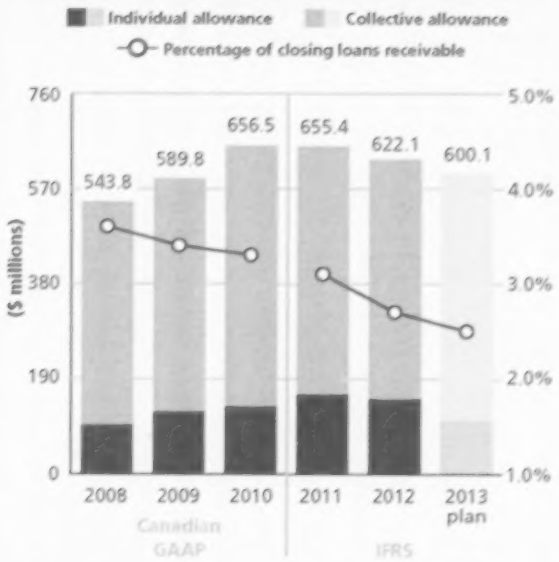


*Net of recoveries.
Writeoffs for 2008 through 2010 have been restated as a result of prior period adjustments.

Allowance for credit losses

The allowance for credit losses is an estimate used to adjust loans receivable to reflect the estimated realizable value. In addition to the use of indicators such as loans in arrears and impaired loans, management must rely on estimates and judgment when assessing the appropriate level of realizable value. These factors, coupled with changes in the external operating environment, may cause the realized credit losses to be materially different from current assessments, resulting in the need for an increase or decrease in the provision for credit losses.

Allowance for credit losses*



*Allowance for credit losses for 2008 through 2010 have been restated as a result of prior period adjustments.

In determining the allowance for credit losses, management segregates credit losses into two allowance components: individual and collective. The individual allowance is determined on an individual review of each impaired loan in the portfolio. The collective allowance assesses risk on an aggregated basis by grouping loans and leases with similar credit risk characteristics. For more details regarding the allowance calculation process and its components, refer to Note 2 and Note 8 of the Notes to the Consolidated Financial Statements.

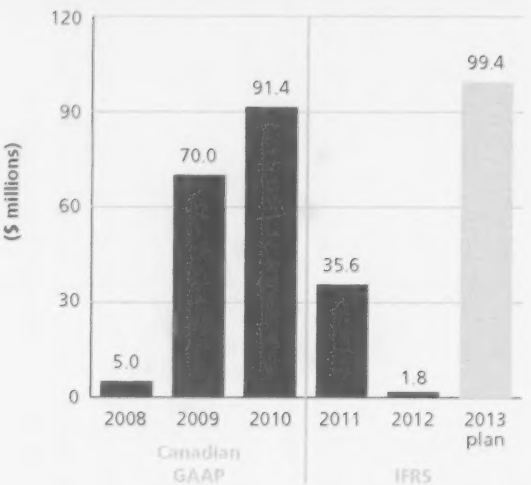
In 2011-12, the allowance for credit losses decreased to $622.1 million, which is $33.3 million lower than the previous fiscal year. The allowance for credit losses as a percentage of closing loans receivable decreased from 3.1% to 2.7%. The reduced level of allowance was the result of a change in estimate due to a refinement in underlying assumptions used to calculate the allowance offset by an increase in the allowance required to support growth in loans receivable. The allowance is expected to decrease by 3.5% to $600.1 million in 2012-13.

Provision for credit losses

Once the allowance for credit losses and writeoffs is determined by management, the provision for credit losses is charged against net income by an amount necessary to bring the allowance for credit losses to the appropriate level.

To bring the allowance to the appropriate level of $622.1 million, the provision for credit losses decreased to $1.8 million in 2011-12. In 2012-13, the provision as a percentage of ending loans receivable is expected to increase to 0.4%.

Provision for credit losses



Efficiency

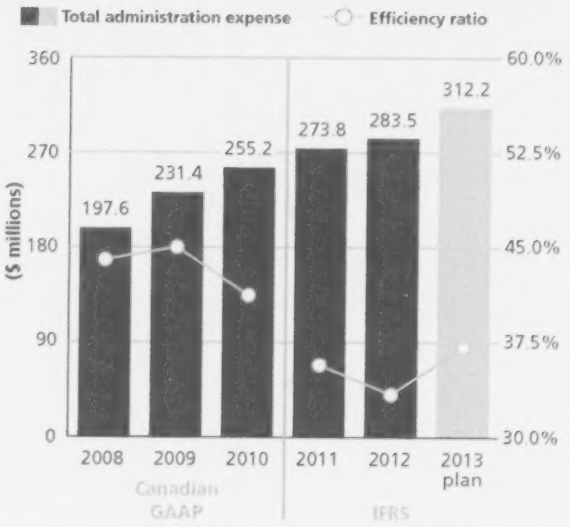
The efficiency ratio measures the percentage of income earned that is spent on the operation of the business. A low efficiency ratio indicates the efficient use of corporate resources.

FCC administration expenses represent costs associated with its day-to-day operation and costs related to specific projects undertaken by FCC to support operations and the achievement of strategic objectives. Although total administration expenses increased in 2011-12, the efficiency ratio improved from 35.7% to 33.4% due to higher net interest income and non-interest income.

Total administration expenses are projected to increase to $312.2 million in 2012-13 and the efficiency ratio is expected to increase to 37.1%. The 3.7% increase in the efficiency ratio is primarily due to lower net interest margin and non-interest income projected for 2012-13. Excluding the one-time gain on sale of the venture capital investments, the year-over-year increase to the efficiency ratio would be 2.3%.

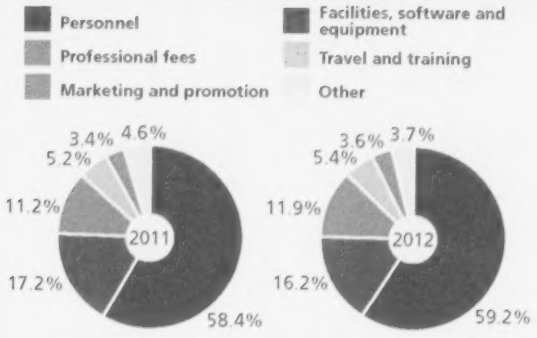
The increase in administration expenses for 2012-13 will be necessary for additional capacity to support growth in the business, normal inflationary pressures and additional depreciation on current capital projects. Some project expenses were also deferred from 2011-12 to 2012-13, contributing to the year-over-year increase. FCC will continue to conduct itself in a manner that is mindful of the current climate of fiscal restraint.

Efficiency ratio



In 2011-12, the largest increase in total administration expenses was due to an increase in personnel expenses. The increases were primarily due to increased resource requirements to support the growth of the business and strategic initiatives. Personnel expenses continue to represent the largest proportion of total administration expenses in 2011-12 at 59.2%.

Administration expenses by category



Funding and liquidity

Funding activity

On April 21, 2008, FCC began borrowing directly from the federal government under the Crown Borrowing Program. FCC continues to carry capital market debt raised before this date.

During 2011-12, FCC raised short- and long-term funds through the following programs:

- Domestic Commercial Paper Program (for U.S. dollars only)
- Crown Borrowing Program

Short-term funding

Short-term funding consists of borrowings with a term to maturity of one year or less. Funding is raised through the Domestic Commercial Paper Program and the Crown Borrowing Program. The outstanding short-term borrowings at March 31, 2012, were $9.6 billion, compared to $8.0 billion at March 31, 2011. Of the total short-term borrowings outstanding, $9.2 billion were funds from the Crown Borrowing Program.

Long-term funding

Long-term funding consists of borrowings with a term to maturity of more than one year, which includes fixed-rate borrowings and floating rate notes. Floating rate notes are borrowings with a term to maturity of more than one year that have a floating interest rate that resets based on one-month or three-month T-bill rates. In 2011-12, FCC borrowed a total of $3.6 billion in long-term funds, down from $5.8 billion the previous fiscal year. In 2011-12, all long-term borrowing was through the Crown Borrowing Program.

Overall, the total growth in long-term funding during 2011-12 was an increase of $0.2 billion or 1.5%. This is consistent with the overall growth of the loan portfolio of $1.8 billion or 8.4% during the same period.

Credit ratings

New and outstanding capital market debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. During 2011-12, the corporation's debt ratings were unchanged by Moody's Investors Service and Standard & Poor's. FCC's debt ratings as of March 31, 2012, are detailed below.

	Long-term	Short-term
Moody's Investors Service	Aaa	P-1
Standard & Poor's	AAA	A-1+

Financial instruments

Most of FCC's balance sheet is comprised of financial instruments, including cash, loans receivable and investments. The use of financial instruments exposes FCC to interest rate and, to a lesser extent, foreign exchange rate fluctuations. As part of its overall liability management, FCC uses derivatives to hedge risks and reduce income volatility to help ensure long-term profitability. Derivative risk management is discussed further in Note 24 of the Notes to the Consolidated Financial Statements. Fair value measurement of FCC's financial instruments is described in Note 19 of the Notes to the Consolidated Financial Statements.

Cash flow

Cash and cash equivalents increased $302.4 million from $601.8 million at March 31, 2011, to $904.2 million at March 31, 2012. In 2011-12, cash of $212.0 million and $1.4 billion was provided by investing and financing activities respectively and $1.3 billion was used in operating activities.

Capital Management

Capitalization

FCC's gross assets are $24,451.1 million, of which $3,730.3 million are supported by equity and allowance for credit losses. At this level of capitalization, 15.3% of assets do not require external debt financing. Capitalization is expected to increase to 16.5% in 2012-13 due to lower portfolio growth relative to growth in retained earnings.

		IFRS		Canadian GAAP		
($ millions)	2013 Plan	2012	2011	2010	2009	2008
Allowance for credit losses	600.1	622.1	655.4	656.5	589.8	543.8
Contributed surplus	547.7	547.7	547.7	547.7	547.7	547.7
Retained earnings	2,836.6	2,340.8	1,938.5	1,584.3	1,321.0	1,132.0
Accumulated other comprehensive income	174.2	203.5	181.8	203.6	407.2	97.1
Non-controlling interest in special purpose entity	14.4	16.2	13.4	9.5	7.6	0.2
Total capitalization	4,173.0	3,730.3	3,336.8	3,001.6	2,873.3	2,320.8
Gross assets	25,275.4	24,451.1	22,526.2	20,942.8	18,392.5	16,013.9
Capitalization as a percentage of gross assets (%)	16.5	15.3	14.8	14.3	15.6	14.5

Debt to equity

FCC uses debt to equity as a key measure to assess capital adequacy. It is also used in financial management as a measure of the corporation's ability to fund future growth and meet long-term obligations. Monitoring debt to equity helps to ensure continued self-sustainability and financial viability.

FCC continues to be below its legislated limit of debt to equity, which is 12:1.

From 2010-11 to 2011-12, FCC's debt-to-equity ratio improved from 7.7:1 to 7.1:1. However, FCC did not achieve its stated objective for 2011-12 of 6.9:1. Increased borrowing required to support higher disbursements and an unanticipated loss on pension liability that flowed through equity increased the debt-to-equity ratio. In 2012-13, this ratio is projected to improve further to 6.2:1. A contributing factor to this improvement is the relationship between portfolio and equity growth. When growth in equity exceeds portfolio growth, the debt-to-equity ratio decreases due to a reduced requirement for borrowed funds. In 2011-12, growth in equity was 16.0%, which exceeded the portfolio growth of 8.4%.

Shareholder return

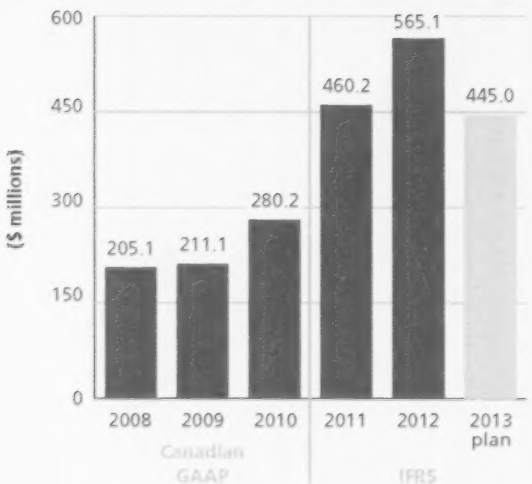
FCC uses three key financial measures to determine its overall success toward financial strength: net income, return on equity and debt to equity. As discussed in the prior section, debt to equity improved from 7.7:1 in 2010-11 to 7.1:1 in 2011-12 due to the growth in equity exceeding portfolio growth.

Net income

As part of its commitment to agriculture, FCC reinvests its earnings by financing portfolio growth and developing new products and business services that support the industry.

In 2011-12, net income increased by $104.9 million from the previous fiscal year primarily due to the increased level of net interest income and non-interest income compounded by a decrease in the provision for credit losses. These increases were partially offset by increases in administration expenses. Net income is projected to decrease by 21.3% in 2012-13 mainly due to a higher provision for credit losses, lower non-interest income and increased administration expenses.

Net income

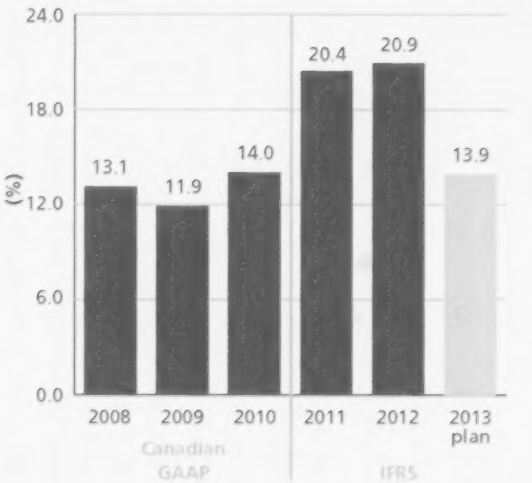


Return on equity

This ratio measures FCC's efficiency at using its existing equity base to generate income. It is used to evaluate financial performance, viability and the corporation's ability to fund future growth and strategic initiatives.

Return on equity increased to 20.9% in 2011-12 from 20.4% in 2010-11. Return on equity is projected to decrease to 13.9% in 2012-13. The decrease is mainly due to an increase in the provision for credit losses, lower non-interest income and higher administration expenses.

Return on equity



Enterprise risk management

Managing risk to protect FCC and create value

As a financial institution, FCC understands that risk is inherent in virtually every decision. Whether lending to customers, defining business priorities or deciding where to invest, potential risks are taken into account.

FCC is diligent about enterprise risk management (ERM), which is integrated with strategic planning across business lines and corporate initiatives. The corporation is focused on continually improving its approach to ERM, including the continued implementation of an ERM framework and the selection of an ERM maturity measure.

Risk governance

The FCC Board of Directors oversees the corporation's risk governance framework, which is supported by policies and committees that guide corporate decision-making.

Potential risks are identified and analyzed through external scanning, consultation with internal subject matter experts and by other means. The top enterprise risks are discussed by the Board through its involvement in the strategic planning cycle. Members of the Executive Management Team (EMT) are accountable for risk mitigation plans, monitor progress and report to the Board on a quarterly basis through the corporate scorecard.

A number of internal committees develop and monitor aspects of FCC's overall risk management policies, processes and practices. These committees report regularly to the President and CEO and EMT, as required, or directly to the Board.

FCC Board of Directors and risk-related committees

The FCC Board of Directors oversees risk management and ensures that policies, control systems and practices are established to manage key business and financial risks. Three committees assist the Board in fulfilling its risk governance responsibilities.

The **Corporate Governance Committee** provides recommendations to the Board regarding all FCC corporate governance matters, including strategic planning and ERM programs and processes, the code of conduct and ethics, corporate social responsibility and the reputation policy.

The **Audit Committee** oversees the integrity of financial reporting, the effectiveness of internal controls, regulatory compliance, ethical conduct and the performance of FCC's internal and external audit functions.

The **Human Resources Committee** is responsible for advising the Board about all matters relative to the President and CEO, including required skills, goal setting, and performance reviews. The committee is also responsible for reviewing the corporation's compensation structure and succession plans for key employees and senior management.

FCC risk committees

The **President and CEO** and **EMT** are responsible for corporate decision-making, including managing the corporation's principal risks. They are also responsible for making decisions concerning risk-related strategies that have been escalated by the following committees.

The **Asset Liability Committee** (ALCO) directs FCC's asset and liability management function, including:

- establishing and maintaining portfolio risk management policies and processes
- balance sheet interest rate policies
- loan pricing
- integration with corporate strategies
- achievement of portfolio return targets

The **Credit Committee** approves large loan transactions and requests for pre-authorized credit in accordance with FCC credit policies. The committee ensures that approved lending transactions fall within an appropriate risk tolerance.

The **Credit Policy Committee** ensures that both industry best practices and federal, provincial and regional laws and regulations are adhered to in the establishment of FCC credit policy and credit risk tolerance.

The **ERM Steering Committee** reviews and recommends FCC's ERM framework, policies, strategies and subsequent enhancements to EMT. The committee also approves annual corporate action plans to mitigate significant risks.

The **Reputation Steering Committee** acts as a focal point for the co-ordination of reputation issues. The committee:

- provides a corporate approach and enterprise-wide perspective on FCC's reputation
- offers counsel and advice on reputation risks
- monitors issues and provides reports to the President and CEO, EMT and the Board

FCC's principal risks

Risk is the potential for an event, action or inaction that may threaten FCC's ability to achieve its business mandate and objectives. FCC has identified five principal risk areas: credit, market, operational, strategic and reputation.

Credit risk

Credit risk is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet financial obligations to FCC. This is the most significant risk that the corporation faces.

The Board is responsible for approving the corporation's credit risk tolerance and relies on a number of committees, divisions and business units to effectively manage credit risks.

On an annual basis, the Board and EMT approve a portfolio diversification plan and key risk measures. Leveraging financial industry best practices, FCC has developed a credit capital model and is in the process of implementing an overarching capital management framework.

The assessment of credit risk starts with individual transactions. FCC lending and credit risk employees assess and manage credit risk by ensuring that individual loans are consistent with defined policies and guidelines. The Valuation business unit has certified appraisers who contribute to assuring the accuracy of loan security value estimates and that FCC is meeting its requirements under the Canadian Environmental Assessment Act.

In addition to managing credit risk at the transactional level, the Portfolio and Credit Risk division assesses credit risk at the aggregate level by providing assessment tools and models that quantify risks, establish the required allowance for loan and lease losses and monitor capital adequacy. Policies, processes, systems, internal controls and strategies are used to manage the credit risk of the portfolio. FCC also closely monitors the agriculture and agribusiness operating environments to ensure that the corporation's lending policies, activities and practices are appropriate and relevant.

The Treasury division assesses credit risk due to counterparty exposure on derivative and investment activity. Policies, processes, systems and strategies are used to manage the credit risk of Treasury activities.

Further details on how FCC manages credit risk are described in Note 24 of the Notes to the Consolidated Financial Statements.

Market risk

Market risk is the potential for loss due to adverse changes in underlying market factors such as interest rates and foreign exchange rates.

Market risk policies are regularly reviewed by the ALCO and approved by the Board. The Treasury division implements market risk management directives and reports regularly to the ALCO and the Board on its activities and asset and liability positions.

FCC has market risk policies and limits in place to ensure that exposure to interest rate and foreign exchange risks are identified, measured, managed and reported on a timely basis. Market risk management at FCC also encompasses derivative fair value risk and liquidity risk. Policies include limits around the variability of net interest income and the market value of portfolio equity relative to interest rate changes.

Liquidity risk is minimized through the use of a liquid investment portfolio, funding through the Crown Borrowing Program and access to an operating line of credit.

Further details on how FCC manages market risk are described in Note 24 of the Notes to the Consolidated Financial Statements.

Operational risk

Operational risk relates to the potential of direct or indirect loss due to inadequate or failed internal processes, resources, systems or external events, and the failure to comply with, or adapt, to legislative or regulatory requirements or litigation.

FCC has a team approach to proactively manage operational risk. All managers are responsible to ensure that appropriate policies and processes are in place within their business units and that internal controls are operating effectively.

FCC is formalizing its internal control framework to advance the risk-based culture at FCC. The internal control framework will formalize the requirements for the design, implementation, operation and monitoring of internal controls within the corporation.

FCC's operations audit program examines lending activities and provides learning opportunities for continuous improvement in the areas of risk assessment and mitigation, compliance to credit policies and data integrity.

Incidents of fraud may negatively affect customer and public perceptions of FCC, making current and potential customers less willing to do business with the corporation. FCC reduces exposure to fraud risk through a Board-approved fraud risk management policy and by delivering fraud awareness training to employees.

To ensure that the corporation can sustain operations in the event of a business disruption, FCC actively updates and tests its business continuity plan.

Enterprise security is addressed by a highly skilled and dedicated team of professionals across Information Technology, Facilities and Administration, and Human Resources who provide security controls that protect the availability, confidentiality and integrity of FCC assets. Overall, enterprise security governance is provided by a cross-divisional security co-ordination team.

FCC is entering the final stages of implementing a major information technology systems renewal that will streamline and automate many business processes, ensuring that FCC's information technology infrastructure can support business in the future. Risks related to the program are mitigated by extensive risk governance and reporting, ongoing reviews by Internal Audit and an external consultant, change management and training activities.

Strategic risk

Strategic risk refers to the external environment and includes competitors' and FCC's ability to develop and implement effective business strategies.

The EMT develops the corporate strategy annually and documents FCC's key strategic priorities in the five-year corporate plan. Oversight is provided by the Board. Progress on the plan is monitored through quarterly reporting to senior management and the Board. The external environment is monitored, including the Canadian financial marketplace and the agriculture industry, to discern if strategic changes are required to address emerging risks. FCC regularly communicates with its shareholder, the Government of Canada, to ensure the alignment of the corporation's activities with government priorities.

Reputation risk

Reputation risk is the risk that key stakeholders and others may develop negative perceptions about FCC that could adversely affect the corporation's reputation and ability to attract and retain customers, business partners and employees.

As a federal Crown corporation, FCC is accountable to all Canadians. To avoid real or perceived reputation damage, FCC has a robust governance structure in place, including policies and processes, to guide employee conduct in interactions with co-workers, customers, industry partners, suppliers, media and the general public.

Customer integrity and the potential impact on FCC's reputation from conducting business with any particular individual is part of the lending process. The loan application process requires customers to sign a declaration stating that they know of no reason why FCC may have any concern with their business.

Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of Farm Credit Canada and all information in this annual report are the responsibility of the corporation's management and have been reviewed and approved by the FCC Board of Directors. The consolidated financial statements include some amounts that are necessarily based on management's best estimates and judgments such as the allowance for credit losses, the retirement benefit liability, the reserve for insurance claims and the fair value of financial instruments.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. Financial information presented elsewhere in the annual report is consistent with that contained in the consolidated financial statements.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are properly authorized and recorded, assets are safeguarded, liabilities are recognized, proper records are maintained and the corporation complies with applicable laws and conflict of interest rules. The system of internal control is augmented by internal audit, which conducts periodic reviews of different aspects of the corporation's operations.

The FCC Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The FCC Board of Directors exercises this responsibility through the Audit Committee, which is composed of Directors who are not employees of the corporation. The Audit Committee meets with management, the internal auditors and the external auditors on a regular basis. Internal and external auditors have full and free access to the Audit Committee.

The corporation's independent external auditor, the Auditor General of Canada, is responsible for auditing the transactions and consolidated financial statements of the corporation and for issuing his report thereon.

Greg Stewart, P.Ag., C.Dir
President and Chief Executive Officer

Rick Hoffman, CMA, MBA
Executive Vice-President and
Chief Financial Officer

Regina, Canada
May 30, 2012

INDEPENDENT AUDITOR'S REPORT

To the Minister of Agriculture and Agri-Food

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of Farm Credit Canada, which comprise the consolidated balance sheets as at 31 March 2012, 31 March 2011 and 1 April 2010, and the consolidated statements of operations, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended 31 March 2012 and 31 March 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

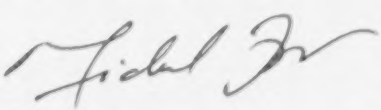
Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Farm Credit Canada as at 31 March 2012, 31 March 2011 and 1 April 2010, and its financial performance and its cash flows for the years ended 31 March 2012 and 31 March 2011 in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied, after giving retrospective effect to the adoption of the new standards as explained in Note 3 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of Farm Credit Canada that have come to my notice during my audits of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Canada Act*, the by-laws of Farm Credit Canada and the directive issued pursuant to Section 89 of the *Financial Administration Act*.



Michael Ferguson, FCA
Auditor General of Canada

30 May 2012
Ottawa, Canada

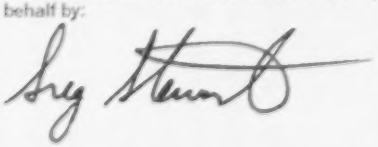
Consolidated Balance Sheet

As at March 31 (Thousands of Canadian dollars)	2012	2011	2010
Assets			
Cash and cash equivalents	$ 904,217	$ 601,840	$ 628,023
Temporary investments (Note 4)	83,813	284,162	199,818
Accounts receivable	16,356	12,676	32,818
Derivative financial assets (Note 5)	67,898	47,407	66,945
	1,072,284	946,085	927,604
Loans receivable – net (Notes 6 and 8)	22,580,309	20,745,891	19,157,211
Finance leases receivable – net (Notes 7 and 8)	9,541	4,912	2,827
Venture capital investments (Note 9)	53,527	58,024	59,987
	22,643,377	20,808,827	19,220,025
Equipment and leasehold improvements (Note 10)	26,655	29,314	31,513
Computer software (Note 11)	40,091	42,124	42,814
Equipment under operating leases (Note 12)	28,331	19,077	14,867
Other assets (Note 13)	18,307	25,284	14,459
	113,384	115,799	103,653
Total assets	$ 23,829,045	$ 21,870,711	$ 20,251,282
Liabilities			
Accounts payable and accrued liabilities	$ 59,675	$ 52,153	$ 49,864
Derivative financial liabilities (Note 5)	84	4,724	6,843
	59,759	56,877	56,707
Borrowings (Note 14)			
Short-term debt	9,568,666	8,029,920	8,810,407
Long-term debt	10,772,729	10,921,999	8,948,764
	20,341,395	18,951,919	17,759,171
Transition Loan liability	84,108	84,245	83,182
Retirement benefit liabilities (Note 15)	224,060	86,275	130,772
Other liabilities (Note 16)	11,550	10,024	8,333
	319,718	180,544	222,287
Equity			
Contributed surplus	547,725	547,725	547,725
Retained earnings	2,340,813	1,938,466	1,452,328
Accumulated other comprehensive income	203,477	181,804	203,603
Equity attributable to shareholder of parent entity	3,092,015	2,667,995	2,203,656
Non-controlling interest in special purpose entity	16,158	13,376	9,461
	3,108,173	2,681,371	2,213,117
Total liabilities and equity	$ 23,829,045	$ 21,870,711	$ 20,251,282

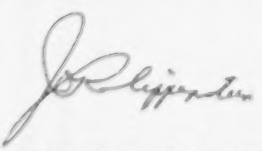
Commitments, guarantees and contingent liabilities (Note 21).

The accompanying notes are an integral part of the consolidated financial statements.

The consolidated financial statements were approved by the FCC Board of Directors on May 30, 2012, and were signed on its behalf by:



Greg Stewart, P.Ag., C. Dir
President and Chief Executive Officer



John Klippenstein, FCMA
Chair, Audit Committee

Consolidated Statement of Operations

For the year ended March 31 (Thousands of Canadian dollars)	2012	2011
Interest income	$ 1,060,359	$ 988,482
Interest expense	263,098	238,382
Net interest income (Note 17)	797,261	750,100
Provision for credit losses (Note 8)	1,781	35,600
Net interest income after provision for credit losses	795,480	714,500
Net insurance income	11,907	11,130
Other income (Note 9)	39,168	4,857
Net interest income and non-interest income	846,555	730,487
Administration expenses		
Salary expense	127,649	122,640
Benefits expense	40,045	37,135
Professional fees expense	33,822	30,541
Facilities, software and equipment expense	23,656	20,952
Amortization and depreciation expense	22,391	26,101
Travel and training expense	15,292	14,306
Marketing and promotion expense	10,093	9,461
Other expenses	10,530	12,617
Total administration expenses	283,478	273,753
Net income before fair value adjustment	563,077	456,734
Fair value adjustment (Note 18)	1,997	3,446
Net income	$ 565,074	$ 460,180
Net income (loss) attributable to:		
Shareholder of parent entity	$ 564,341	$ 460,944
Non-controlling interest in special purpose entity	733	(764)

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended March 31 (Thousands of Canadian dollars)	2012	2011
Net income	$ 565,074	$ 460,180
Other comprehensive income		
Net gains on derivatives designated as cash flow hedges	39,178	498
Transfer of net realized gains on derivatives designated as cash flow hedges to net income	(18,430)	(21,060)
Change in net gains (losses) on derivatives designated as cash flow hedges	20,748	(20,562)
Net actuarial (losses) gains on defined benefit pension plans	(144,494)	1,939
Change in liability arising from the impact of the minimum funding requirement on the asset ceiling	–	41,755
Net unrealized gains (losses) on available-for-sale financial assets	925	(1,237)
Total other comprehensive income	$ (122,821)	$ 21,895
Total comprehensive income	$ 442,253	$ 482,075
Total comprehensive income (loss) attributable to:		
Shareholder of parent entity	$ 441,520	$ 482,839
Non-controlling interest in special purpose entity	733	(764)

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

(Thousands of Canadian dollars)	Balance April 1, 2011	Net income	Other comprehensive income	Dividend paid	Distributions to non-controlling interest	Balance, March 31, 2012
Contributed surplus	$ 547,725	$ –	$ –	$ –	$ –	$ 547,725
Retained earnings	1,938,466	564,341	(144,494)	(17,500)	–	2,340,813
Net gains on derivatives designated as cash flow hedges	183,297	–	20,748	–	–	204,045
Net unrealized (losses) gains on available-for-sale financial assets	(1,493)	–	925	–	–	(568)
Total accumulated other comprehensive income	181,804	–	21,673	–	–	203,477
Total equity attributable to parent	2,667,995	564,341	(122,821)	(17,500)	–	3,092,015
Non-controlling interest in special purpose entity	13,376	733	–	–	2,049	16,158
Total	$ 2,681,371	$ 565,074	$ (122,821)	$ (17,500)	$ 2,049	$ 3,108,173

(Thousands of Canadian dollars)	Balance April 1, 2010	Net income	Other comprehensive income	Dividend paid	Distributions to non-controlling interest	Balance, March 31, 2011
Contributed surplus	$ 547,725	$ –	$ –	$ –	$ –	$ 547,725
Retained earnings	1,452,328	460,944	43,694	(18,500)	–	1,938,466
Net gains (losses) on derivatives designated as cash flow hedges	203,859	–	(20,562)	–	–	183,297
Net unrealized losses on available-for-sale financial assets	(256)	–	(1,237)	–	–	(1,493)
Total accumulated other comprehensive income (loss)	203,603	–	(21,799)	–	–	181,804
Total equity attributable to parent	2,203,656	460,944	21,895	(18,500)	–	2,667,995
Non-controlling interest in special purpose entity	9,461	(764)	–	–	4,679	13,376
Total	$ 2,213,117	$ 460,180	$ 21,895	$ (18,500)	$ 4,679	$ 2,681,371

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended March 31 (Thousands of Canadian dollars)	2012	2011
Operating activities		
Net income	$ 564,341	$ 460,944
Adjustments to determine net cash (used in) provided by operating activities:		
Net interest income	(797,261)	(750,100)
Unwind adjustment	535	(1,197)
Provision for credit losses	1,781	35,600
Fair value adjustment	(1,997)	(3,446)
Gain on sale of venture capital investment in associate	(34,048)	–
Depreciation and amortization (1)	(4,160)	(9,040)
Other	(864)	(2,547)
Net cash outflow from loans receivable	(1,836,732)	(1,588,701)
Net cash outflow from finance leases receivable	(4,258)	(2,020)
Net change in other operating assets and liabilities	20,462	1,375
Interest received	1,059,128	929,673
Interest paid	(250,846)	(186,631)
Cash used in operating activities	$ (1,283,919)	$ (1,116,090)
Investing activities		
Net cash inflow (outflow) from temporary investments	$ 200,442	$ (84,314)
Acquisition of venture capital investments	(9,511)	(12,000)
Proceeds on disposal and repayment of venture capital investments	50,452	15,582
Purchase of equipment and leasehold improvements	(8,142)	(8,649)
Purchase of computer software	(9,588)	(14,563)
Purchase of equipment under operating leases	(13,983)	(7,862)
Disposal of real estate property held for sale	2,292	2,068
Cash provided by (used in) investing activities	$ 211,962	$ (109,738)
Financing activities		
Long-term debt issued	$ 3,575,666	$ 5,775,881
Long-term debt repaid	(3,481,967)	(3,486,289)
Short-term debt issued	32,373,724	42,093,003
Short-term debt repaid	(31,074,904)	(43,164,403)
Dividend paid	(17,500)	(18,500)
Cash provided by financing activities	$ 1,375,019	$ 1,199,692
Change in cash and cash equivalents	$ 303,062	$ (26,136)
Cash and cash equivalents, beginning of year	601,840	628,023
Effects of exchange rate changes on the balances of cash held and due in foreign currencies	(685)	(47)
Cash and cash equivalents, end of year	$ 904,217	$ 601,840
Cash and cash equivalents are comprised of:		
Cash	$ 107,576	$ 18,106
Short-term investments	796,641	583,734

(1) Includes the depreciation of equipment and leasehold improvements and equipment under operating leases and the amortization of computer software. Also includes amortization of accumulated other comprehensive income, bond premium or discount, deferred revenue fees and deferred initial direct leasing costs.

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. The corporation

Authority and objectives

Farm Credit Canada (the corporation) was established in 1959 by the Farm Credit Act as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the Financial Administration Act. The corporation is domiciled in Canada and its registered office is at 1800 Hamilton Street, Regina, Saskatchewan, Canada. The corporation is wholly owned by the Government of Canada and is not subject to the requirements of the Income Tax Act.

On April 2, 1993, the Farm Credit Corporation Act was proclaimed into law and replaced the Farm Credit Act and the Farm Syndicates Credit Act, both of which were repealed. The revised Act allows the corporation to operate under an expanded mandate that includes broader lending and administrative powers.

On June 14, 2001, the Farm Credit Canada Act received royal assent, which updated the Farm Credit Corporation Act. This Act allows the corporation to offer producers and agribusiness operators a broader range of services.

In September 2008, the corporation, together with a number of other Crown corporations, was issued a directive (P.C. 2008-1598) pursuant to Section 89 of the Financial Administration Act, requiring due consideration by the corporation to the personal integrity of those it lends to or provides benefits to. During fiscal 2012, the corporation continued to ensure that the requirements of Section 89(6) of the Financial Administration Act were being implemented.

The purpose of the corporation is to enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small and medium-sized businesses, that are businesses related to farming. The primary focus of the activities of the corporation shall be on farming operations, including family farms.

2. Significant accounting policies

Basis of presentation

Consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These are the corporation's first annual financial statements prepared in accordance with IFRS. The impact to the corporation of the transition to IFRS is outlined in Note 3.

The significant accounting policies used in the preparation of the consolidated financial statements are summarized below and in the following pages. The significant accounting policies have been applied consistently to all periods presented in the consolidated financial statements and in preparing the opening IFRS consolidated balance sheet as at April 1, 2010, for the purposes of the transition to IFRS.

The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the corporation. Unless otherwise stated, all dollar amounts presented within the Notes to the Consolidated Financial Statements are in thousands of Canadian dollars.

2. Significant accounting policies (continued)

Basis of consolidation

The consolidated financial statements include the accounts of the corporation, Avrio Ventures Limited Partnership (Avrio Fund I) and Avrio Ventures Limited Partnership II (Avrio Fund II). Avrio Fund I and Avrio Fund II are venture capital limited partnerships for which the corporation is a limited partner holding majority partnership interests. The corporation consolidates Avrio Fund I and Avrio Fund II because they are special purpose entities in which the corporation is entitled and exposed to a majority of the benefits and risks. An adjustment has been made for significant intervening transactions occurring between Avrio Fund I's and Avrio Fund II's year-end of December 31 and the year-end of the corporation. All significant intercompany balances and transactions have been eliminated. The non-controlling interest, which represents the equity in Avrio Fund I and Avrio Fund II not attributable to the corporation, has been presented in the Consolidated Balance Sheet, the Consolidated Statement of Operations, the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Equity.

Classification and designation of financial instruments

Financial assets are classified or designated as loans and receivables, financial assets at fair value through profit or loss or available-for-sale (AFS) financial assets. Financial liabilities are classified or designated as financial liabilities at fair value through profit or loss or other financial liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial instruments at fair value through profit or loss are derivative financial assets and liabilities that are classified as held for trading (HFT) and non-derivative financial assets and liabilities that meet certain conditions to be designated at fair value through profit or loss at initial recognition. AFS financial assets are non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets.

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification.

Cash and cash equivalents

Cash and cash equivalents are composed of bank account balances and short-term highly liquid investments that are readily convertible to cash with a maturity date of 90 days or less from the date of acquisition. Interest earned on cash and cash equivalents is included in interest income.

Temporary investments

Temporary investments have maturity dates between 91 and 365 days from the date of acquisition, are acquired primarily for liquidity purposes and are designated as AFS financial assets. Temporary investments are accounted for at fair value using trade date accounting and a valuation technique as described under the Estimation Uncertainty heading. Unrealized fair value gains and losses are included in other comprehensive income (OCI). Interest earned on temporary investments is included in interest income.

2. Significant accounting policies (continued)

Derivatives

Derivative financial instruments create rights and obligations that are intended to mitigate one or more of the financial risks inherent in an underlying primary financial instrument. The corporation uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations, within limits approved by the FCC Board of Directors (Board). These limits are based on guidelines established by the Department of Finance. The corporation does not use derivative financial instruments for speculative purposes.

Derivatives not designated as hedging instruments in effective hedging relationships are classified as HFT. HFT derivatives are recorded at fair value using a valuation technique as described under the Estimation Uncertainty heading, with gains and losses reported in the fair value adjustment. HFT derivatives are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. Interest earned and incurred on HFT derivatives is included in interest expense.

Cash flow hedges

Derivatives that are designated as hedging items in cash flow hedges are accounted for at fair value. The effective portion of a change in a derivative's fair value is recognized in OCI while the ineffective portion of a change in a derivative's fair value is reported in the fair value adjustment. Derivatives designated as hedging items are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. Interest income or expense related to derivatives designated as hedging items in cash flow hedges is recognized on the same basis as the hedged item, as an adjustment to interest income or expense, respectively.

Cash flow hedge accounting is discontinued prospectively when the derivative contract is terminated, matures or no longer qualifies as an effective cash flow hedge. When a cash flow hedge is discontinued, any cumulative gains or losses previously recognized in OCI are transferred to net interest income over the remaining term of the original hedge and in the same manner that net interest income is affected by the variability in the cash flows as the hedged item. For derivatives still outstanding following the date of the discontinued hedging relationship, all subsequent fair value gains and losses are recognized immediately in the fair value adjustment.

Loans receivable

Loans are classified as loans and receivables. Loans receivable are stated net of an allowance for credit losses and deferred loan fees and are measured at amortized cost using the effective interest rate method.

Loan interest income is recorded on an accrual basis and is recognized in net income using the effective interest rate method until such time as the loan is classified as impaired. Once a loan is impaired, the unwinding of the discount on the security value is recognized as interest income based on the original effective interest rate of the loan.

Loan origination fees, including commitment fees and renegotiation fees, are considered an integral part of the return earned on a loan and are recognized in interest income over the expected term of the loan using the effective interest rate method. In addition, certain incremental direct costs for originating the loans are deferred and netted against the related fees.

An impaired loan is any loan where, in management's opinion, there has been a deterioration of credit quality to the extent that the corporation no longer has reasonable assurance of timely collection of the full amount of principal and interest. In addition, any loan that is $500 or more in arrears for 90 days is classified as impaired unless the loan is sufficiently secured. When a loan is classified as impaired, the carrying value is reduced to its estimated realizable value through an adjustment to the individual allowance for credit losses. Changes in the estimated realizable amount arising subsequent to initial impairment are also adjusted through the allowance for credit losses.

2. Significant accounting policies (continued)

Loan interest income is not accrued when a loan is classified as impaired. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to performing status when, in management's opinion, the ultimate collection of principal and interest is reasonably assured. When the impaired loan is restored to performing status, the allowance for credit losses is reduced through the unwind adjustment for the amount of loan interest income now recognized.

Loans and their related allowance for credit losses are written off when all collection efforts have been exhausted and there is no realistic prospect of future recovery.

Finance leases receivable

Finance leases receivable are classified as loans and receivables. Finance leases receivable are stated net of an allowance for credit losses and are recorded at the aggregate future minimum lease payments plus estimated residual values less unearned finance income. Finance lease income is recognized in a manner that produces a constant rate of return on the lease.

Allowance for credit losses

The corporation recognizes an allowance for credit losses that represents management's best estimate of the incurred losses in the loan and lease portfolio at the balance sheet date. The allowance is increased or decreased by the provision for credit losses, the government subsidy for the Hog Industry Loan Loss Reserve Program (HILLRP), as described under the Government Assistance heading, the unwind adjustment, as described under the Individual Allowance heading, writeoffs and recoveries.

The corporation assesses at each balance sheet date whether there is objective evidence that a loan or lease is impaired. If there is objective evidence that an impairment loss on a loan or lease has been incurred, the carrying value of the loan or lease is reduced through the allowance for credit losses and the amount of the loss is recognized in the provision for credit losses. If, in a subsequent period, the amount of impairment loss increases or decreases and the increase or decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is adjusted through the allowance for credit losses and provision for credit losses. In determining the allowance for credit losses, management segregates credit losses into two components: individual and collective.

Individual allowance – The corporation first assesses whether objective evidence of impairment exists based on an individual review of each loan or lease in the portfolio. The review is undertaken to determine if a loss event indicating impairment exists for an individual loan or lease. The review assesses whether there has been a deterioration of credit quality to the extent that the corporation no longer has reasonable assurance of timely collection of the full amount of principal and interest. In addition, the corporation has defined arrears of greater than $500 for 90 or more consecutive days as being a loss event. If a loss event has occurred, an impairment loss is recorded as the difference between the loan or lease's carrying value and the present value of estimated future cash flows discounted at either the loan or lease's original effective interest rate for fixed-rate loans or leases or the effective interest rate at the time of the impairment for variable-rate loans or leases. The estimation of future cash flows considers the fair value of any underlying security as well as the estimated time and costs to realize the security. In subsequent periods, any change in present value of estimated future cash flows attributable to the passage of time adjusts the allowance for credit losses through the unwind adjustment. The unwind adjustment is recorded in interest income.

2. Significant accounting policies (continued)

Collective allowance – If the corporation determines that no objective evidence of impairment exists for an individually assessed loan or lease, it is assessed on a collective basis. In making the collective assessment of impairment, management groups the loans and leases into portfolios with similar credit risk characteristics. Future cash flows for these portfolios are estimated on the basis of underlying security values and historical loss experience. The collective assessment of impairment for loans is broken down into three components: triggered loan pool, incurred but not reported (IBNR) and overlay.

- Triggered loan pool – Loans are included in this pool if any one of the following loss events has occurred:
  1. All loans for customers with any one loan that has a minimum of $500 of arrears.
  2. All loans for customers with any one loan that has had an amortization extension to the payment schedule in the last 12 months.
  3. Any individual loan that has had a 15-point risk scoring and pricing system (RSPS) score drop when compared to its RSPS score 12 months ago.
- IBNR – This assessment considers credit losses that have been incurred but have not yet been identified on loans subject to individual assessment. It is based on the historical movement of loans from performing status to either the triggered or individually impaired loan pools.
- Overlay – The corporation uses the overlay to adjust its historical loss experience reflected in the triggered loan pool and IBNR components of the collective assessment for current market conditions.

For select portions of the corporation's portfolio, the above process is tailored to capture the unique characteristics of these loans to identify and measure impairment more accurately. For these loans, the individual loss event is considered to be 165 days past due. For the collective allowance, the corporation considers the historical movement of performing loans to impaired status along with the calculation of expected future cash flows estimated using historical probabilities of default and loss given default.

Venture capital investments

Venture capital investments include investments that are held directly by the corporation and investments held by Avrio Fund I and Avrio Fund II.

The corporation has designated its venture capital investments at fair value through profit or loss, as they are managed and their performance is evaluated on a fair value basis in accordance with a documented investment strategy, with the exception of one associate venture capital investment that was sold during the fiscal year. An associate is an entity over which the corporation is able to exert significant influence.

Venture capital investments designated at fair value through profit or loss are accounted for at fair value, using a valuation technique as described under the Estimation Uncertainty heading, with gains and losses reported in the fair value adjustment. Interest on debt, calculated in accordance with the effective interest rate method, is accrued when receivable and included in interest income. Dividends on preferred and common shares are accrued when receivable and declared, respectively, and included in interest income. Royalty and fee income are also accrued when receivable and included in interest income.

The associate venture capital investment was initially accounted for at cost and subsequently accounted for using the equity method. Under this method, the pro rata share of post-acquisition earnings is included in other income and adjusts the carrying value of the investment. Dividends received or receivable reduce the carrying value of the investment. The gain on sale of the associate venture capital investment is recorded in other income.

2. Significant accounting policies (continued)

Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the equipment or leasehold improvement. Subsequent expenditures, including replaced parts, are included in the equipment or leasehold improvement's carrying value or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the corporation and the cost of the item can be measured reliably. The carrying value of the replaced part is derecognized. All repair and maintenance costs are expensed during the financial period in which they are incurred.

Depreciation begins when the equipment or leasehold improvement is available for use by the corporation. Depreciation is calculated using the straight-line method to allocate the cost less estimated residual value of the asset over the following terms:

	Terms
Office equipment and furniture	5 years
Computer equipment	3 or 5 years
Leasehold improvements	Shorter of lease term or asset's useful economic life

The residual values and useful lives are reviewed annually and adjusted, if appropriate. Equipment and leasehold improvements are reviewed annually for impairment and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss would be recorded to reduce the carrying value to the recoverable amount if the carrying value is greater than the estimated recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with the carrying value and are included in facilities, software and equipment expense.

Computer software

Computer software is recorded at cost less accumulated amortization. Expenditures on internally developed software are recognized as assets when the corporation is able to demonstrate its intention and ability to complete the development, to use the software in a manner that will generate future economic benefits and to reliably measure the costs to complete the development. The capitalized costs of internally developed software include all costs directly attributable to developing the software.

Amortization begins when the software is available for use by the corporation. Amortization is recorded over the estimated useful life of three or five years using the straight-line method.

Software is reviewed annually for indications of impairment or changes in estimated future economic benefits. If such indications exist, the carrying value is analyzed to assess whether it is fully recoverable. An impairment loss would be recorded to reduce the carrying value to the recoverable amount if the carrying value is greater than the estimated recoverable amount.

Equipment under operating leases

Equipment under operating leases is recorded at cost less accumulated depreciation. Equipment is depreciated on a straight-line basis over the term of the lease and is included in interest expense. Lease income from operating leases is recognized on a straight-line basis over the term of the lease and is included in interest income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying value of the leased asset and recognized on a straight-line basis over the lease term.

2. Significant accounting policies (continued)

Post-employment benefits

The corporation has a registered defined benefit pension plan, three supplemental defined benefit pension plans, a registered defined contribution pension plan, a supplemental defined contribution plan and other defined benefit plans that provide retirement and post-employment benefits to most of its employees. The defined benefit pension plan is based on the number of years of service and average salary of the five highest-paid consecutive years of service. It is inflation-protected. The supplemental defined benefit and supplemental defined contribution pension plans are available for employees with employment income greater than pensionable earnings.

Retirement benefit plans are contributory health-care plans with employee contributions adjusted annually and a non-contributory life insurance plan. Post-employment plans provide short-term disability income benefits, severance entitlements after employment and health-care benefits to employees on long-term disability.

The accrued benefit obligations for pension and other defined benefit plans are actuarially determined using the projected unit credit actuarial valuation method that incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors.

For the purpose of calculating the expected return on plan assets, these assets are valued at fair value.

Actuarial gains or losses arise from the difference between the actual long-term rate of return on plan assets for the period and the expected long-term rate of return on plan assets for the period or from changes in actuarial assumptions used to determine the accrued benefit obligations. Actuarial gains and losses are recognized in OCI as incurred and flow into retained earnings in the Consolidated Balance Sheet.

Past service costs arising from plan amendments are recognized immediately in benefits expense to the extent that the benefits are already vested and otherwise are recognized on a straight-line basis over the average period until the benefits become vested.

The defined benefit asset or liability represents the present value of the defined benefit obligation adjusted for unrecognized past service costs and is reduced by the fair value of plan assets. The defined benefit asset is limited to the value determined by the asset ceiling. The value of the asset is restricted to the sum of any unrecognized actuarial losses and past service costs, plus the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plan.

Contributions to the defined contribution plan are recognized as an expense when employees have rendered service entitling them to the contributions. Unpaid contributions are recognized as a liability.

Insurance

The corporation sells group creditor life and accident insurance to its customers through a program administered by a major insurance provider. The insurance premiums are actuarially determined and are accrued when receivable and recorded in net insurance income.

Insurance claims expense, included in net insurance income, consists of paid claims that are recorded as incurred throughout the year, an accrual for insurance claims payable at year-end for claims that have been incurred as at the balance sheet date and adjustments to the reserve for insurance claims. The reserve for insurance claims represents the liability that, together with estimated future premiums and net investment income on insurance reserve assets, will provide for outstanding claims, estimated future benefits, taxes (other than income taxes) and expenses. The reserve for insurance claims is recorded at fair value and included in other liabilities. The reserve is actuarially determined using the Canadian Asset Liability Method and prepared on a going concern basis, taking into account the appropriate degree of risk inherent in the obligation, as described in Note 24. Changes in estimates are recorded when made and are included in net insurance income.

2. Significant accounting policies (continued)

The corporation maintains an insurance reserve asset, which is included in other assets, with the insurance provider to fund future claim payments. Interest is paid on the reserve asset by the insurance provider annually and is recorded in other income.

Expenses related to administering the insurance program are recorded in other expenses. The accrual for insurance claims payable is classified as other financial liabilities, measured at amortized cost and included in accounts payable and accrued liabilities.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are classified as other financial liabilities and measured at amortized cost.

Borrowings

Borrowings are undertaken with the approval of the Minister of Finance. Borrowings are direct obligations of the corporation and therefore constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

Structured notes form part of the corporation's funding program. Structured notes are hybrid securities that combine fixed-income products with derivative financial instruments. The corporation designated its structured notes at fair value through profit or loss to record them on a basis consistent with the fair value changes in their related derivatives. Borrowings designated at fair value through profit or loss are accounted for at fair value, using a valuation technique as described under the Estimation Uncertainty heading, with gains and losses reported in the fair value adjustment.

Other borrowings are classified as other financial liabilities and measured at amortized cost.

Interest incurred on all borrowings is recorded on an accrual basis and is recognized in interest expense using the effective interest rate method.

Transition Loan liabilities

The corporation records a Transition Loan liability that represents amounts owing to third parties upon the signing of a contract that requires the corporation to pay amounts in accordance with a disbursement schedule relating to undisbursed Transition Loans, which are included in loans receivable. As payments are made in accordance with the Transition Loan disbursement schedule, the applicable amount of the Transition Loan liability is reduced accordingly. Transition Loan liabilities are recorded at amortized cost.

2. Significant accounting policies (continued)

Government assistance

The corporation is one of the financial institutions participating in the HILLRP. Under the HILLRP, the Government of Canada has established a loan loss reserve fund to share the net credit losses on eligible loans provided to hog operations with certain financial institutions. The corporation is responsible for all credit losses beyond those covered by the loan loss reserve fund and must meet certain eligibility requirements to access the reserve fund. The amount of funds available from the loan loss reserve fund to the corporation for any non-performing eligible loans are 90%, 80% and 70% of net credit losses in years one to three, four to six and seven to 15, respectively. Amounts held by the corporation to which the corporation is not entitled are paid back to the Government of Canada at the end of the program. The corporation's deadline for disbursing the loans eligible under this program has passed and no further loan loss reserve fund instalments are due from the Government of Canada.

An estimate is made by management for the amount of the loan loss reserve fund to which the corporation is entitled under the HILLRP. This estimate is accounted for as a reduction to the corporation's provision for credit losses. The remaining amount of the loan loss reserve fund, to which the corporation is not entitled, is recorded as long-term debt. Interest on this long-term debt is recorded in interest expense.

Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issuance or disposal of a financial asset or liability. Transaction costs relating to loans and receivables and borrowings classified as other liabilities are deferred and amortized over the expected useful life of the instrument using the effective interest rate method. Transaction costs related to all other financial instruments are expensed as incurred.

Operating lease payments

Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs are expensed as incurred.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date. Income and expenses are translated at the monthly average exchange rates prevailing throughout the year. Exchange gains and losses on loans and receivables are included in interest income, and exchange gains and losses on borrowings are included in interest expense.

Segmented information

The corporation is organized and managed as a single business segment, which is agriculture lending. All of the corporation's revenues are within Canada.

Significant management judgments in applying accounting policies

The following are critical management judgments used in applying the accounting policies of the corporation.

- **Basis of consolidation**
  Management has exercised its judgment to determine that Avrio Fund I and Avrio Fund II meet the criteria of special purpose entities, and the substance of the relationship between the corporation and Avrio Fund I and Avrio Fund II indicates that the corporation controls Avrio Fund I and Avrio Fund II in accordance with SIC-12 – Consolidation – Special Purpose Entities.

2. Significant accounting policies (continued)

- **Finance leases receivable**
  In applying the classification of leases in IAS 17 – Leases, management considers leases of agricultural equipment to be either finance or operating lease arrangements. In some cases, the lease transaction is not always conclusive and management uses judgment in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership.

- **Computer software**
  A significant portion of the corporation's computer software expenditures relates to software that is developed as part of internal infrastructures and, to a lesser extent, purchased directly from suppliers. Management has a process to monitor the progress of internal research and development projects. Significant judgment is required in distinguishing between the research and development phases. Research costs are expensed as incurred, whereas development costs are recognized as an asset when all criteria are met. Management monitors whether the recognition requirements for development costs continue to be met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems after the time of recognition.

Estimation uncertainty

The preparation of the consolidated financial statements in accordance with IFRS requires that management make judgments, estimates and assumptions concerning the future that affect the reported amounts in the consolidated financial statements and accompanying notes. Judgments, estimates and assumptions are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these judgments, estimates and assumptions. Information about the significant judgments, estimates and assumptions that are critical to the recognition and measurement of assets, liabilities, income and expense are discussed below.

- **Allowance for credit losses**
  The corporation reviews its loan and lease portfolio to assess impairment. The corporation makes judgments when determining whether a loss event has occurred as well as estimates and assumptions in the measurement of the resulting impairment loss. Management uses best estimates based on historical loss experience for loans and leases with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

- **Defined benefit liability**
  The estimate of the defined benefit liability for pension and non-pension post-retirement benefits is actuarially determined and incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial assumptions. One of the more significant assumptions used is the discount rate. Management determines the appropriate discount rate at the end of each year. This is the interest rate that determines the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, management considers the interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. Any changes in these assumptions will affect the carrying values of defined benefit liabilities.

- **Reserve for insurance claims**
  The reserve for insurance claims is based on certain estimates and assumptions, including expected future mortality experience and interest rates. Higher mortality experience and increased interest rates would be financially adverse to the corporation. The corporation's mortality experience is combined with industry experience, since the corporation's own experience is insufficient to be statistically credible.

2. Significant accounting policies (continued)

- **Useful lives of depreciable assets**
  During the software development process and when new equipment, leasehold improvements and computer software are being purchased, management's judgment and estimates are required to determine the expected period of benefit over which capitalized costs should be amortized. Management reviews the useful lives of depreciable assets at each reporting date. Actual results may vary because of technical obsolescence, particularly for software and information technology equipment due to rapidly changing technology and the uncertainty of the software development process.

- **Impairment of assets**
  The corporation assesses impairment by comparing the recoverable amount of an asset with its carrying value. The determination of the recoverable amount involves significant management judgment, estimates and assumptions. The corporation performs its test for impairment on an annual basis in accordance with the policies as described throughout the Significant Accounting Policies note.

- **Fair value of financial instruments**
  The fair value of financial instruments is determined based on published quoted market prices or valuation techniques when quoted market prices are not available. Fair values are point-in-time estimates that may change significantly in subsequent reporting periods due to changes in market conditions. Fair value techniques use models and assumptions about future events, based on either observable or non-observable market inputs. As such, fair values are estimates involving uncertainties and may be significantly different when compared to another financial institution's value for a similar contract. The methods used to value the corporation's financial instruments measured at fair value are as follows:

  - The estimated fair value of temporary investments is calculated by discounting contractual cash flows at interest rates prevailing at the reporting date for equivalent securities.

  - The estimated fair value of derivative financial assets and liabilities is determined using market standard valuation techniques. Where call or extension options exist, the value of these options is determined using current market measures for interest rates and currency exchange rates and by taking volatility levels and estimations for other market-based pricing factors into consideration. Market-observed credit spreads, where available, are a key factor in establishing valuation adjustments against the corporation's counterparty credit exposures. Where the counterparty does not have an observable credit spread, a proxy that reflects the credit profile of the counterparty is used.

  - Venture capital investments in shares that are traded on an exchange are valued based on the bid prices as at the reporting date. Venture capital investments in shares of privately held companies are valued based on guidelines issued by the venture capital industry, using market-based valuation methodologies. Estimated fair value of venture capital debt investments is calculated by discounting contractual cash flows at interest rates prevailing at the reporting date with equivalent terms to maturity.

  - The estimated fair value of structured notes is calculated by discounting contractual cash flows at interest rates prevailing at the reporting date for equivalent terms to maturity or by using quoted market prices where available. Inputs used to determine the fair value include currency exchange rates, credit spreads, yield curves and volatility levels. Where embedded optionality exists (call features), fair values are derived using market standard valuation models and techniques. The value of the embedded options is determined using market measures for interest rates, currency exchange rates and volatility levels and estimations for other market-based pricing factors.

2. Significant accounting policies (continued)

Accounting standards issued but not yet effective

The corporation has reviewed the new standards and amendments that have been issued but are not yet effective and determined that the following may have an impact on the corporation. Management is in the process of assessing the impact of these standards and amendments on the corporation's financial statements and accounting policies.

Standard	Details	Annual periods commencing on or after
IFRS 7 – Financial Instruments: Disclosures	The amended standard was issued together with the amended IAS 32 – Financial Instruments: Presentation to enhance disclosures about the offsetting of financial assets and financial liabilities.	January 1, 2015
IFRS 9 – Financial Instruments	The new standard provides requirements for classifying and measuring financial assets and liabilities. This standard is the first in a three-phase project in progress by the IASB to replace IAS 39 – Financial Instruments: Recognition and Measurement in its entirety. It is anticipated that this standard will result in a change in classification of the corporation's temporary investments from AFS to fair value through profit and loss.	January 1, 2015
IFRS 10 – Consolidated Financial Statements	The new standard replaces the consolidation requirements in IAS 27 – Consolidated and Separate Financial Statements and SIC-12 – Consolidation – Special Purpose Entities. It establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. No significant changes are anticipated as a result of this standard.	January 1, 2013
IFRS 12 – Disclosure of Interests in Other Entities	The new standard is on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. It is anticipated that this standard will result in increased disclosure on venture capital investments.	January 1, 2013
IFRS 13 – Fair Value Measurement	The new standard establishes new guidance on fair value measurement and disclosure requirements. It is anticipated that this standard will result in increased disclosure on fair value measurement.	January 1, 2013
IAS 19 – Employee Benefits	The standard was amended to improve the recognition, presentation and disclosure of defined benefit plans. The amendments revise the calculation of finance costs, which are included in net income. It is anticipated that finance costs will increase, offset by an increase in OCI.	January 1, 2013
IAS 28 – Investments in Associates	This standard was reissued as Investments in Associates and Joint Ventures, as a result of the new standards IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements and IFRS 12 – Disclosure of Interests in Other Entities. No significant changes are anticipated as a result of this standard.	January 1, 2013
IAS 32 – Financial Instruments: Presentation	The amended standard was issued together with the amended IFRS 7 – Financial Instruments: Disclosures to clarify the guidance on the offsetting of financial assets and financial liabilities.	January 1, 2014

3. Transition to IFRS

As stated in Note 2, these are the first annual consolidated financial statements prepared by the corporation in accordance with IFRS. IFRS 1 – First-time Adoption of International Reporting Standards requires that comparative financial information be provided. As a result, the first date at which the corporation has applied IFRS was April 1, 2010 (the "transition date").

In preparing its opening IFRS Consolidated Balance Sheet, the corporation has adjusted amounts reported previously in consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP). An explanation of how the transition from Canadian GAAP to IFRS has affected the corporation's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Reconciliation of equity

($ thousands)	March 31, 2011	April 1, 2010
Total equity under Canadian GAAP	$ 2,768,630	$ 2,345,055
Differences (decreasing) increasing retained earnings		
Employee benefits (Note a)	(84,716)	(129,209)
Loan origination costs (Note b)	(9,791)	(6,038)
Fees assessed after loan origination (Note c)	7,248	3,309
Total equity under IFRS	$ 2,681,371	$ 2,213,117

Reconciliation of comprehensive income

($ thousands)	March 31, 2011
Total comprehensive income under Canadian GAAP	$ 437,396
Differences increasing (decreasing) net income	
Employee benefits (Note a)	799
Loan origination costs (Note b)	(3,753)
Fees assessed after loan origination (Note c)	3,939
Difference increasing other comprehensive income	
Employee benefits (Note a)	43,694
Total comprehensive income under IFRS	$ 482,075

3. Transition to IFRS (continued)

Reconciliation of Consolidated Balance Sheet as at April 1, 2010

($ thousands)

Canadian GAAP accounts	Canadian GAAP	IFRS adjustments	Reclassifications	IFRS	IFRS accounts
Assets					Assets
Cash and cash equivalents	$ 628,023	$ –	$ –	$ 628,023	Cash and cash equivalents
Temporary investments	199,818	–	–	199,818	Temporary investments
Accounts receivable	32,818	–	–	32,818	Accounts receivable
Derivative financial assets	66,945	–	–	66,945	Derivative financial assets
	927,604	–	–	927,604	
Loans receivable – net	19,159,940	(2,729)	–	19,157,211	Loans receivable – net
Finance leases receivable – net	2,827	–	–	2,827	Finance leases receivable – net
Venture capital investments	59,987	–	–	59,987	Venture capital investments
	19,222,754	(2,729)	–	19,220,025	
Equipment and leasehold improvements	31,513	–	–	31,513	Equipment and leasehold improvements
Computer software	42,814	–	–	42,814	Computer software
Equipment under operating leases	14,867	–	–	14,867	Equipment under operating leases
Other assets	46,791	(32,332)	–	14,459	Other assets
	135,985	(32,332)	–	103,653	
Total assets	$ 20,286,343	$ (35,061)	$ –	$ 20,251,282	Total assets
Liabilities					Liabilities
Accounts payable and accrued liabilities	$ 48,635	$ 1,229	$ –	$ 49,864	Accounts payable and accrued liabilities
Derivative financial liabilities	6,843	–	–	6,843	Derivative financial liabilities
	55,478	1,229	–	56,707	
Borrowings					Borrowings
Short-term debt	8,810,407	–	–	8,810,407	Short-term debt
Long-term debt	8,948,764	–	–	8,948,764	Long-term debt
	17,759,171	–	–	17,759,171	
Transition Loan liability	–	–	83,182	83,182	Transition Loan liability
Retirement benefit liabilities	–	–	130,772	130,772	Retirement benefit liabilities
Other liabilities	126,639	95,648	(213,954)	8,333	Other liabilities
	126,639	95,648	–	222,287	
Shareholder's equity					Equity
Contributed surplus	547,725	–	–	547,725	Contributed surplus
Retained earnings	1,584,266	(131,938)	–	1,452,328	Retained earnings
Accumulated other comprehensive income	203,603	–	–	203,603	Accumulated other comprehensive income
Equity attributable to to shareholder of parent entity	2,335,594	(131,938)	–	2,203,656	**Equity attributable to shareholder of parent entity**
Non-controlling interest in variable interest entity	9,461	–	–	9,461	Non-controlling interest in special purpose entity
	2,345,055	(131,938)	–	2,213,117	
Total liabilities and shareholder's equity	$ 20,286,343	$ (35,061)	$ –	$ 20,251,282	Total liabilities and equity

3. Transition to IFRS (continued)

Reconciliation of Consolidated Balance Sheet as at March 31, 2011

($ thousands)

Canadian GAAP accounts	Canadian GAAP	IFRS adjustments	Reclassifications	IFRS	IFRS accounts
Assets					Assets
Cash and cash equivalents	$ 601,840	$ –	$ –	$ 601,840	Cash and cash equivalents
Temporary investments	284,162	–	–	284,162	Temporary investments
Accounts receivable	12,676	–	–	12,676	Accounts receivable
Derivative financial assets	47,407	–	–	47,407	Derivative financial assets
	946,085	–	–	946,085	
Loans receivable – net	20,748,432	(2,541)	–	20,745,891	Loans receivable – net
Finance leases receivable – net	4,912	–	–	4,912	Finance leases receivable – net
Venture capital investments	58,024	–	–	58,024	Venture capital investments
	20,811,368	(2,541)	–	20,808,827	
Equipment and leasehold improvements	29,314	–	–	29,314	Equipment and leasehold improvements
Computer software	42,124	–	–	42,124	Computer software
Equipment under operating leases	19,077	–	–	19,077	Equipment under operating leases
Other assets	62,089	(36,805)	–	25,284	Other assets
	152,604	(36,805)	–	115,799	
Total assets	$ 21,910,057	$ (39,346)	$ –	$ 21,870,711	Total assets
Liabilities					Liabilities
Accounts payable and accrued liabilities	$ 50,656	$ 1,497	$ –	$ 52,153	Accounts payable and accrued liabilities
Derivative financial liabilities	4,724	–	–	4,724	Derivative financial liabilities
	55,380	1,497	–	56,877	
Borrowings					Borrowings
Short-term debt	8,029,920	–	–	8,029,920	Short-term debt
Long-term debt	10,921,999	–	–	10,921,999	Long-term debt
	18,951,919	–	–	18,951,919	
Transition Loan liability	–	–	84,245	84,245	Transition Loan liability
Retirement benefit liabilities	–	–	86,275	86,275	Retirement benefit liabilities
Other liabilities	134,128	46,416	(170,520)	10,024	Other liabilities
	134,128	46,416	–	180,544	
Shareholder's equity					Equity
Contributed surplus	547,725	–	–	547,725	Contributed surplus
Retained earnings	2,025,725	(87,259)	–	1,938,466	Retained earnings
Accumulated other comprehensive income	181,804	–	–	181,804	Accumulated other comprehensive income
Equity attributable to shareholder of parent entity	2,755,254	(87,259)	–	2,667,995	**Equity attributable to shareholder of parent entity**
Non-controlling interest in variable interest entity	13,376	–	–	13,376	Non-controlling interest in special purpose entity
	2,768,630	(87,259)	–	2,681,371	
Total liabilities and shareholder's equity	$ 21,910,057	$ (39,346)	$ –	$ 21,870,711	Total liabilities and equity

3. Transition to IFRS (continued)

Notes to the reconciliations

(a) Employee benefits

(i) Under IFRS, the corporation's accounting policy is to recognize actuarial gains and losses in OCI at March 31 of each year. The corporation has elected to recognize all cumulative actuarial gains and losses for its defined benefit plans at the transition date. The transitional adjustment to retained earnings relating to this item was a decrease of $63.5 million. Further, the corporation has elected to use the exemption to not disclose the present value of the defined benefit obligation, fair value of the plan assets, defined benefit plan surplus or deficit and experience adjustments before the transition date. The impact for the year ended March 31, 2011, was an increase to net income and OCI of $2.8 million and $1.9 million, respectively.

(ii) Under IFRS, the corporation will recognize a liability immediately for all past service costs arising from plan amendments to the extent that the benefits are already vested, and otherwise will recognize them on a straight-line basis over the average period until the benefits become vested. Under Canadian GAAP, all past service costs from plan amendments were amortized over the average remaining service period of active employees when the amendment was recognized. On transition, the corporation recognized all vested past service costs and the impact to retained earnings was a decrease of $1.2 million. The impact for the year ended March 31, 2011, was an increase to net income of $0.1 million.

(iii) IFRS requires that if the corporation has a net pension asset for its defined benefit obligation, the asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of the economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the corporation. An economic benefit is available to the corporation if it is realizable during the life of the plan or on settlement of the plan liabilities. Canadian GAAP did not calculate the asset ceiling in this manner. On transition, the corporation recognized an additional liability and the impact to retained earnings was a decrease of $41.8 million. The impact to OCI for the year ended March 31, 2011, was an increase of $41.8 million.

(iv) Under IFRS, the measurement date for the accrued benefit obligation and the plan assets must be a date such that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period. Under Canadian GAAP, the plan assets and accrued benefit obligation were measured three months before the date of the annual financial statements. On transition, the corporation recognized a $21.5-million decrease to retained earnings as a result of the measurement date change. The impact for the year ended March 31, 2011, was a decrease to net income of $1.8 million.

(v) IFRS requires the corporation to record a liability for accumulating short-term compensated absences that do not vest. The expense is recognized when the employee renders service that increases his or her entitlement to future compensated absences that do not vest. Canadian GAAP did not require a liability for this type of short-term employee benefit to be recorded. The transitional adjustment to retained earnings to record the obligation was a decrease of $1.2 million. The impact to net income for the year ended March 31, 2011, was a decrease of $0.3 million.

(b) Loan origination costs

Under IFRS, loan origination costs must be incremental and directly attributable to the loan origination. Loan origination costs must be deferred and recognized over the expected term of the loan using the effective interest rate method. Under Canadian GAAP, a portion of loan administration expenses were deferred and recognized over the expected term of the loan using the effective interest rate method, as they were considered direct costs of negotiating and executing loan agreements. These costs do not meet the criteria of loan origination costs under IFRS, and the deferred balance was recognized at transition. The transitional impact to retained earnings was a decrease of $6.0 million. The impact to net income for the year ended March 31, 2011, was a decrease of $3.8 million.

3. Transition to IFRS (continued)

(c) Fees assessed after loan origination

Under IFRS, fees assessed after loan origination are recognized in income immediately. This includes conversions, re-amortizations, terming out and payment schedule amendments, which, under Canadian GAAP, were deferred and recognized over the expected term of the loan using the effective interest rate method. The deferred balance was recognized at transition. The transitional impact to retained earnings was an increase of $3.3 million. The impact to net income for the year ended March 31, 2011, was an increase of $3.9 million.

(d) Unwind adjustment

When a loan is classified as impaired, the carrying value is reduced to its estimated realizable amount through an adjustment to the allowance for credit losses. An impairment loss is recorded as the difference between the loan's carrying value and the present value of discounted estimated future cash flows. In subsequent periods, any change in the present value of estimated future cash flows attributable to the passage of time adjusts the allowance for credit losses through the unwinding of the discount. The amount of the adjustment is recorded as income. Under IFRS, this income is recognized in interest income while, under Canadian GAAP, it was recognized as a reduction to the provision for credit losses. There is no impact to total comprehensive income for the year ended March 31, 2011.

Other IFRS elections at transition

Business combinations

The corporation has elected not to apply IFRS 3 – Business Combinations retrospectively to business combinations that occurred before the transition date to IFRS. Therefore, prior business combinations have not been restated. There is no effect on the corporation's financial statements at transition from applying this exemption.

Leases

The corporation has elected under IFRS 1 not to reassess whether an arrangement contains a lease under IFRIC 4 – Determining Whether an Arrangement Contains a Lease for contracts that were assessed under Canadian GAAP. Arrangements entered into before the effective date of EIC 150 – Determining Whether an Arrangement Contains a Lease that have not subsequently been assessed under EIC 150 were assessed under IFRIC 4, and no additional leases were identified. There is no financial statement impact at transition as a result of this election.

Borrowing costs

Under Canadian GAAP, the corporation expensed borrowing costs as incurred. At the transition date, the corporation elected to capitalize borrowing costs only in respect of qualifying assets for which the commencement date for capitalization was on or after the transition date. There is no financial statement impact at transition as a result of this election.

Reclassifications

Certain Canadian GAAP figures have been reclassified to conform to the current year's presentation. As at April 1, 2010, $83.1 million and $130.8 million have been reclassified from other liabilities to the Transition Loan liability and retirement benefit liabilities categories, respectively. As at March 31, 2011, $84.2 million and $86.3 million have been reclassified from other liabilities to the Transition Loan liability and retirement benefit liabilities categories, respectively. As at March 31, 2011, $26.5 million of net interest on derivative financial assets and liabilities designated as cash flow hedges has been reclassified from interest expense to interest income. As at March 31, 2011, $3.7 million of depreciation on equipment under operating leases has been reclassified from interest income to interest expense.

4. Temporary investments

($ thousands)	March 31, 2012 Carrying value	March 31, 2012 Yield	March 31, 2011 Carrying value	March 31, 2011 Yield	April 1, 2010 Carrying value	April 1, 2010 Yield
Short-term instruments	$ 83,813	1.09%	$ 284,162	1.12%	$ 199,818	0.32%

Short-term instruments consist of deposit notes, bankers' acceptance and treasury bills issued by institutions with credit ratings of R-1M or higher (2011 – R-1M or higher; 2010 – R-1M or higher) as rated by the Dominion Bond Rating Service. As at March 31, 2012, the largest total investment in any one institution was $63.9 million (2011 – $123.6 million; 2010 – $89.9 million).

All temporary investments have an initial term maturity of 91 to 365 days and will mature within three months of the balance sheet date.

5. Derivative financial instruments

($ thousands)	March 31, 2012	March 31, 2011	April 1, 2010
Derivative financial assets			
Derivatives designated as cash flow hedges	$ 67,408	$ 46,310	$ 65,023
Derivatives classified as HFT	490	1,097	1,922
	$ 67,898	$ 47,407	$ 66,945
Derivative financial liabilities			
Derivatives designated as cash flow hedges	$ –	$ 4,475	$ 3,819
Derivatives classified as HFT	84	249	3,024
	$ 84	$ 4,724	$ 6,843

Types of derivative contracts

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest. Notional amounts upon which interest payments and receipts are based are not exchanged. Cross-currency interest rate swaps are transactions in which two parties exchange notional amounts in different currencies at inception and maturity, as well as interest flows, on the exchanged amounts on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest.

The derivative contracts entered into by the corporation are over-the-counter instruments.

Cash flow hedges

Cash flow hedges consist of interest rate swaps. The corporation is exposed to variability in future interest cash flows on non-trading assets that bear interest at variable rates. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for the financial assets on the basis of their contractual terms and other relevant factors. The principal balances and interest cash flows over time form the basis for identifying the effective portion of gains and losses on the derivatives designated as cash flow hedges of forecasted transactions.

As at March 31, 2012, the estimated amount of existing net gains reported in AOCI that is expected to be transferred to net income within the next 12 months is $22.6 million.

The maximum length of time over which the corporation is hedging its exposure to the variability in future cash flows for anticipated transactions is 10 years.

5. Derivative financial instruments (continued)

Notional principal amounts and term to maturity

($ thousands)		March 31, 2012 Within 1 year	1 – 5 years	Over 5 years	Total
Interest rate swaps					
Receive	**Pay**				
Fixed	Floating	$ 5,000	$ 94,675	$ 237,994	$ 337,669
Cross-currency	Fixed	3,365	–	–	3,365
		$ 8,365	$ 94,675	$ 237,994	$ 341,034

($ thousands)		March 31, 2011 Within 1 year	1 – 5 years	Over 5 years	Total
Interest rate swaps					
Receive	**Pay**				
Fixed	Floating	$ 350,000	$ 449,675	$ 297,300	$ 1,096,975
Cross-currency	Fixed	–	3,397	–	3,397
		$ 350,000	$ 453,072	$ 297,300	$ 1,100,372

($ thousands)		April 1, 2010 Within 1 year	1 – 5 years	Over 5 years	Total
Interest rate swaps					
Receive	**Pay**				
Fixed	Floating	$ –	$ 555,189	$ 601,675	$ 1,156,864
Cross-currency	Floating	–	–	22,704	22,704
Cross-currency	Fixed	–	3,679	–	3,679
		$ –	$ 558,865	$ 624,379	$ 1,183,247

5. Derivative financial instruments (continued)

Counterparty credit risk

Derivatives that have a positive fair value are subject to counterparty risk because the positive fair value indicates that over time the corporation can expect to receive cash flows from the counterparties based on the terms of the contract and current market conditions.

The net fair values of the derivative instruments are as follows:

	March 31, 2012		
($ thousands)	Positive fair value	Negative fair value	Net fair value
Interest rate swaps	$ 67,898	$ –	$ 67,898
Cross-currency interest rate swaps	–	84	(84)
Fair value	67,898	84	67,814
Impact of master netting agreements	(57)	(57)	–
	$ 67,841	$ 27	$ 67,814

	March 31, 2011		
($ thousands)	Positive fair value	Negative fair value	Net fair value
Interest rate swaps	$ 47,407	$ 4,475	$ 42,932
Cross-currency interest rate swaps	–	249	(249)
Fair value	47,407	4,724	42,683
Impact of master netting agreements	(4,694)	(4,694)	–
	$ 42,713	$ 30	$ 42,683

	April 1, 2010		
($ thousands)	Positive fair value	Negative fair value	Net fair value
Interest rate swaps	$ 66,945	$ 6,474	$ 60,471
Cross-currency interest rate swaps	–	369	(369)
Fair value	66,945	6,843	60,102
Impact of master netting agreements	(6,810)	(6,810)	–
	$ 60,135	$ 33	$ 60,102

The corporation does not anticipate any significant non-performance by counterparties because all counterparties are rated Aa2 or higher, as rated by Moody's Investors Service (Moody's). The largest cumulative notional amount contracted with any institution as at March 31, 2012, was $139.3 million (2011 – $350.0 million; 2010 – $450.0 million) and the largest net fair value of contracts with any institution as at March 31, 2012, was $23.8 million (2011 – $13.6 million; 2010 – $17.5 million). The corporation mitigates the credit exposure on multiple derivative transactions by entering into master netting agreements with counterparties as outlined in Note 24. These agreements create the legal right of offset of exposure in the event of default.

Using reasonable possible alternative assumptions for valuing derivatives would not have a material effect on the corporation's financial position or earnings. To determine reasonably possible alternative assumptions, the corporation adjusted key unobservable model inputs. These adjustments included de-correlating interest rates and subjecting parameters to a large shift.

6. Loans receivable – net

The following table summarizes the contractual maturity and effective interest rates of the performing loans receivable as at March 31, 2012. The yields are computed on a weighted-average basis by amount and term. Floating-rate loans are linked to the bank prime rate and re-priced with changes in the rate.

	March 31, 2012			
($ thousands)	Within 1 year	1 – 5 years	Over 5 years	Total
Floating	$ 1,241,440	$ 12,789,350	$ 779,763	$ 14,810,553
Yield	3.89%	3.98%	3.79%	3.96%
Fixed	1,089,958	5,348,495	1,691,161	8,129,614
Yield	5.20%	4.85%	5.67%	5.07%
Performing loans				22,940,167
Impaired loans				285,118
Deferred loan fees				(23,026)
Loans receivable – gross				23,202,259
Allowance for credit losses				(621,950)
Loans receivable – net				$ 22,580,309

	March 31, 2011			
($ thousands)	Within 1 year	1 – 5 years	Over 5 years	Total
Floating	$ 1,007,473	$ 12,762,603	$ 836,183	$ 14,606,259
Yield	4.33%	3.93%	3.85%	3.95%
Fixed	901,801	4,058,505	1,547,054	6,507,360
Yield	5.73%	5.64%	6.14%	5.77%
Performing loans				21,113,619
Impaired loans (restated)				310,636
Deferred loan fees				(22,986)
Loans receivable – gross (restated)				21,401,269
Allowance for credit losses (restated)				(655,378)
Loans receivable – net				$ 20,745,891

	April 1, 2010			
($ thousands)	Within 1 year	1 – 5 years	Over 5 years	Total
Floating	$ 1,118,906	$ 11,164,296	$ 845,227	$ 13,128,429
Yield	4.32%	3.08%	3.24%	3.20%
Fixed	830,128	3,860,899	1,741,155	6,432,182
Yield	5.95%	5.92%	6.21%	6.00%
Performing loans				19,560,611
Impaired loans (restated)				282,769
Deferred loan fees				(29,706)
Loans receivable – gross (restated)				19,813,674
Allowance for credit losses (restated)				(656,463)
Loans receivable – net				$ 19,157,211

Management estimates that annually, over the next three years, approximately 6.3% (2011 – approximately 6.5%; 2010 – approximately 6.5%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2012, $97.3 million (2011 – $57.5 million; 2010 – $64.9 million) of loans receivable were denominated in U.S. dollars (USD).

6. Loans receivable – net (continued)

The comparative information has been adjusted to conform to the corporation's accounting policies and to ensure that fully impaired loans are written off only at the point in time where collection efforts have been fully exhausted. The adjustments consist of an increase to both impaired loans and the allowance for credit losses by $69.3 million as at March 31, 2011, and $46.1 million as at April 1, 2010. There is no impact to the Consolidated Balance Sheet or the Consolidated Statement of Operations.

Concentrations of credit risk

The concentrations of performing loans and impaired loans by enterprise and geographic area are as follows:

Enterprise distribution

	Performing			Impaired		
($ thousands)	March 31, 2012	March 31, 2011	April 1, 2010	March 31, 2012	March 31, 2011 Restated	April 1, 2010 Restated
Cash crops	$ 8,458,662	$ 7,568,906	$ 6,973,079	$ 50,828	$ 79,381	$ 47,284
Dairy	4,800,021	4,564,786	4,374,364	15,625	12,572	5,108
Other	3,325,268	2,459,874	2,312,794	39,221	41,059	43,876
Value-added	2,400,461	2,422,799	1,865,483	54,898	81,806	70,141
Poultry	1,581,851	1,472,401	1,372,485	1,725	4,341	13,550
Beef	1,330,738	1,545,068	1,522,184	17,897	28,687	31,389
Hogs	1,043,166	1,079,785	1,140,222	104,924	62,790	71,421
Total	$ 22,940,167	$ 21,113,619	$ 19,560,611	$ 285,118	$ 310,636	$ 282,769

Geographic distribution

	Performing			Impaired		
($ thousands)	March 31, 2012	March 31, 2011	April 1, 2010	March 31, 2012	March 31, 2011 Restated	April 1, 2010 Restated
Western	$ 6,917,923	$ 6,429,437	$ 5,940,816	$ 78,664	$ 109,413	$ 94,440
Prairie	5,385,652	4,936,189	4,527,475	107,593	85,177	77,761
Ontario	6,996,890	6,357,975	6,038,210	21,772	24,936	50,747
Quebec	2,700,004	2,446,594	2,191,470	41,499	41,855	29,902
Atlantic	939,698	943,424	862,640	35,590	49,255	29,919
Total	$ 22,940,167	$ 21,113,619	$ 19,560,611	$ 285,118	$ 310,636	$ 282,769

7. Finance leases receivable – net

($ thousands)	March 31, 2012	March 31, 2011	April 1, 2010
Total minimum finance lease payments receivable			
Less than one year	$ 3,846	$ 2,105	$ 1,351
Between one and five years	6,628	3,332	1,856
Finance leases receivable – gross	10,474	5,437	3,207
Unearned finance income	(789)	(441)	(325)
Allowance for credit losses	(144)	(84)	(55)
Finance leases receivable – net	$ 9,541	$ 4,912	$ 2,827

The corporation retains as collateral a security interest in the equipment associated with finance leases. The maximum term for finance leases receivable is five years.

8. Allowance for credit losses

($ thousands)	March 31, 2012 Loans receivable	Finance leases receivable	Total	March 31, 2011 Loans receivable Restated	Finance leases receivable	Total Restated
Individual allowance, beginning of year (restated)	$ 157,734	$ –	$ 157,734	$ 134,118	$ –	$ 134,118
Provision for credit losses	13,099	–	13,099	52,406	–	52,406
Losses covered under HILLRP	2,623	–	2,623	(2,960)	–	(2,960)
Unwind adjustment	535	–	535	(1,197)	–	(1,197)
Writeoffs	(36,074)	–	(36,074)	(25,106)	–	(25,106)
Recoveries	2,883	–	2,883	473	–	473
Individual allowance, end of year	$ 140,800	$ –	$ 140,800	$ 157,734	$ –	$ 157,734
Collective allowance, beginning of year	$ 497,644	$ 84	$ 497,728	$ 522,345	$ 55	$ 522,400
Provision for credit losses	(11,378)	60	(11,318)	(16,836)	29	(16,807)
Losses covered under HILLRP	(1,682)	–	(1,682)	2,329	–	2,329
Writeoffs	(3,608)	–	(3,608)	(10,433)	–	(10,433)
Recoveries	174	–	174	239	–	239
Collective allowance, end of year	$ 481,150	$ 144	$ 481,294	$ 497,644	$ 84	$ 497,728
Total allowance	$ 621,950	$ 144	$ 622,094	$ 655,378	$ 84	$ 655,462

A change in estimate was required in the current period due to a refinement to the underlying assumptions used to calculate the collective allowance for credit losses as a result of more experience. The magnitude of the impact was an increase to the allowance for credit losses and the provision for credit losses of $51.7 million as at March 31, 2012.

9. Venture capital investments

($ thousands)	March 31, 2012	March 31, 2011	April 1, 2010
Investments designated at fair value through profit or loss	$ 53,527	$ 48,438	$ 54,414
Investment in associate	–	9,586	5,573
	$ 53,527	$ 58,024	$ 59,987

The investment in associate was sold in January 2012 and resulted in a realized gain of $34.0 million that is included in other income. It is anticipated that further gains of approximately $7.1 million will be realized in future periods, subject to fulfilment of certain conditions of the sale agreement.

For the year ended March 31, 2012, the total amount of net gains realized on disposal of venture capital investments designated at fair value through profit or loss and reported in fair value adjustment was $2.1 million (2011 – $2.2 million).

Carrying value by type of investment

($ thousands)	March 31, 2012	March 31, 2011	April 1, 2010
Preferred shares	$ 29,954	$ 25,641	$ 20,766
Debt	14,003	14,293	13,500
Common shares	9,570	18,090	25,721
	$ 53,527	$ 58,024	$ 59,987

As at March 31, 2012, $0.1 million (2011 – $0.4 million; 2010 – $3.0 million) of venture capital debt investments is due to the corporation within one year and $13.9 million (2011 – $13.9 million; 2010 – $10.5 million) is due between one and five years.

Concentrations of venture capital investments by sector

($ thousands)	March 31, 2012	March 31, 2011	April 1, 2010
Food processing and manufacturing	$ 19,051	$ 20,122	$ 26,828
Bio-based fuels and chemicals	18,938	18,519	14,106
Agriculture biotechnology	15,538	19,383	19,053
	$ 53,527	$ 58,024	$ 59,987

The total amount of fees, interest and dividends recorded in interest income during the year for venture capital investments designated at fair value through profit or loss was $2.4 million (2011 – $1.4 million). The total income recorded in other income for the associate venture capital investments during the year was $0.7 million (2011 – $3.0 million), excluding the gain on the sale of the investment in associate.

In addition to the above investments, the corporation has loans receivable from venture capital investees in the amount of $27.7 million (2011 – $35.8 million; 2010 – $47.3 million) and guarantees from venture capital investees in the amount of $nil (2011 – $7.7 million; 2010 – $12.7 million).

The venture capital investment portfolio exposes the corporation to credit risk. Venture capital investments are typically secured by a general security agreement, assignment of life insurance proceeds and personal guarantees. As at March 31, 2012, the gross amount of venture capital debt investments that were in arrears was $nil (2011 – $0.1 million; 2010 – $5.5 million).

The potential effect of using reasonable possible alternative assumptions for valuing venture capital investments that are measured at fair value would not have a material effect on the corporation's financial position or earnings.

10. Equipment and leasehold improvements

($ thousands)	Leasehold improvements	Office equipment and furniture	Computer equipment	Total
Cost				
Balance as at April 1, 2010	$ 37,570	$ 26,759	$ 12,069	$ 76,398
Additions	5,684	1,676	1,605	8,965
Disposals	(2,123)	(1,660)	(2,124)	(5,907)
Balance as at March 31, 2011	$ 41,131	$ 26,775	$ 11,550	$ 79,456
Additions	4,480	2,120	1,548	8,148
Disposals	(542)	(391)	(1,168)	(2,101)
Balance as at March 31, 2012	$ 45,069	$ 28,504	$ 11,930	$ 85,503
Accumulated depreciation				
Balance as at April 1, 2010	$ 18,139	$ 18,100	$ 8,646	$ 44,885
Depreciation	5,584	2,944	2,321	10,849
Disposals	(1,817)	(1,660)	(2,115)	(5,592)
Balance as at March 31, 2011	$ 21,906	$ 19,384	$ 8,852	$ 50,142
Depreciation	6,001	2,928	1,841	10,770
Disposals	(509)	(388)	(1,167)	(2,064)
Balance as at March 31, 2012	$ 27,398	$ 21,924	$ 9,526	$ 58,848
Carrying value				
April 1, 2010	$ 19,431	$ 8,659	$ 3,423	$ 31,513
March 31, 2011	19,225	7,391	2,698	29,314
March 31, 2012	**17,671**	**6,580**	**2,404**	**26,655**

11. Computer software

($ thousands)	
Cost	
Balance as at April 1, 2010	$ 92,156
Additions:	
Internally developed	12,694
Purchased	1,870
Disposals	(2,675)
Balance as at March 31, 2011	$ 104,045
Additions:	
Internally developed	8,948
Purchased	640
Disposals	–
Balance as at March 31, 2012	$ 113,633
Accumulated amortization	
Balance as at April 1, 2010	$ 49,342
Amortization	15,252
Disposals	(2,673)
Balance as at March 31, 2011	$ 61,921
Amortization	11,621
Disposals	–
Balance as at March 31, 2012	73,542
Carrying value	
April 1, 2010	$ 42,814
March 31, 2011	42,124
March 31, 2012	**40,091**

11. Computer software (continued)

Included in the carrying value as at March 31, 2012, is $22.0 million (2011 – $23.3 million; 2010 – $22.1 million) consisting of internally generated software related to the business process and technology transformation program (BK), which is being developed to enhance speed, reduce manual effort and provide the corporation with the capability to enhance agility in the technology arena. As at March 31, 2012, certain components of BK were not completed and available for use therefore, amortization has not yet begun. For the BK components that have been completed and are available for use, the remaining amortization period is between two and five years.

Research and development costs related to internally developed computer software in the amount of $0.7 million (2011 – $1.1 million) have been included within facilities, software and equipment expenses.

12. Equipment under operating leases

($ thousands)	
Cost	
Balance as at April 1, 2010	$ 17,405
Additions	10,658
Disposals	(2,767)
Balance as at March 31, 2011	$ 25,296
Additions	17,398
Disposals	(3,035)
Balance as at March 31, 2012	$ 39,659
Accumulated depreciation	
Balance as at April 1, 2010	$ 2,537
Depreciation (Note 17)	3,682
Balance as at March 31, 2011	$ 6,219
Depreciation (Note 17)	5,109
Balance as at March 31, 2012	$ 11,328
Carrying value	
April 1, 2010	$ 14,867
March 31, 2011	19,077
March 31, 2012	28,331

13. Other assets

($ thousands)	March 31, 2012	March 31, 2011	April 1, 2010
Insurance reserve assets	$ 17,559	$ 15,014	$ 11,985
Real estate property held for sale	682	859	834
Other	66	39	57
Retirement benefit assets	–	9,372	1,583
	$ 18,307	$ 25,284	$ 14,459

14. Borrowings

Short-term debt

($ thousands)	March 31, 2012	March 31, 2011	April 1, 2010
Government of Canada debt			
Floating-rate borrowings	$ 6,051,606	$ 4,586,281	$ 2,403,198
Fixed-rate borrowings	3,171,566	3,023,116	6,109,733
	$ 9,223,172	$ 7,609,397	$ 8,512,931
Retail and institutional fixed-rate notes	238,994	363,281	232,708
U.S. dollar fixed-rate promissory notes (1)	94,873	57,242	64,768
Cash collateral due to derivative counterparties	6,156	–	–
Structured note double-up coupon	5,471	–	–
	$ 9,568,666	$ 8,029,920	$ 8,810,407

(1) $95.0 million USD (2011 – $58.9 million USD; 2010 – $63.8 million USD)

Short-term debt by maturity date and yield

	March 31, 2012				
	Government of Canada		Capital markets		
($ thousands)	Carrying value	Yield	Carrying value	Yield	Total
From 0 – 3 months	$ 4,478,096	1.08%	$ 302,522	2.91%	$ 4,780,618
From 4 – 6 months	2,055,979	0.88%	–	–	2,055,979
From 7 – 9 months	1,618,695	0.96%	5,471	1.18%	1,624,166
From 10 – 12 months	1,070,402	0.90%	31,345	4.03%	1,101,747
Cash collateral due to derivative counterparties	–	–	6,156	1.00%	6,156
	$ 9,223,172		$ 345,494		$ 9,568,666

	March 31, 2011				
	Government of Canada		Capital markets		
($ thousands)	Carrying value	Yield	Carrying value	Yield	Total
From 0 – 3 months	$ 5,032,054	1.05%	$ 199,489	2.84%	$ 5,231,543
From 4 – 6 months	731,410	0.99%	34,848	4.56%	766,258
From 7 – 9 months	770,667	0.94%	–	–	770,667
From 10 – 12 months	1,075,266	0.92%	186,186	4.16%	1,261,452
	$ 7,609,397		$ 420,523		$ 8,029,920

	April 1, 2010				
	Government of Canada		Capital markets		
($ thousands)	Carrying value	Yield	Carrying value	Yield	Total
From 0 – 3 months	$ 6,551,436	0.30%	$ 136,773	2.19%	$ 6,688,209
From 4 – 6 months	600,065	0.26%	–	–	600,065
From 7 – 9 months	746,405	0.60%	160,703	3.50%	907,108
From 10 – 12 months	615,025	0.27%	–	–	615,025
	$ 8,512,931		$ 297,476		$ 8,810,407

The corporation has a demand operating line of credit, which provides overdraft protection in the amount of $30.0 million (2011 – $30.0 million; 2010 – $30.0 million). Indebtedness under this agreement is unsecured and this credit facility does not expire. Any draws made throughout the year on this facility are reversed the next day. As at March 31, 2012, there were no draws on this facility (2011 – nil; 2010 – nil).

14. *Borrowings (continued)*

Long-term debt

($ thousands)	March 31, 2012	March 31, 2011	April 1, 2010
Government of Canada debt			
Floating-rate borrowings	$ 8,295,816	$ 8,492,505	$ 5,561,716
Fixed-rate borrowings	1,909,411	1,557,383	1,919,638
	$ 10,205,227	$ 10,049,888	$ 7,481,354
Structured notes			
Index-linked notes	$ 222	$ 267	$ 276
Double-up coupon	–	5,861	6,179
Dual currency notes (1)	–	–	11,768
Reverse floating-rate note (2)	–	–	8,277
	$ 222	$ 6,128	$ 26,500
Retail and institutional fixed-rate notes	567,280	865,983	1,440,910
	$ 10,772,729	$ 10,921,999	$ 8,948,764

(1) ¥1.1 billion Japanese Yen
(2) ¥0.8 billion Japanese Yen

The redemption of structured notes is controllable by the corporation. At the inception of a structured note, derivative swap agreements are entered into concurrently to economically hedge the embedded interest rate and currency exposure. In practice, the corporation will only redeem a structured note if the swap counterparty exercises its right to terminate the related derivative swap agreement. These derivative contracts ensure that the corporation will receive proceeds from the swap to meet the requirements of servicing and settling the debt obligation. The corporation has, in substance, created floating-rate debt by issuing notes at fixed rates and entering into swap contracts whereby the corporation receives fixed-rate interest and pays floating-rate interest, and vice versa. In swapping out of the underlying note issue, the potential market risk has been converted to credit risk. Credit exposure on derivative financial instruments is further discussed in Note 24.

As at March 31, 2012, the amount the corporation is contractually required to pay on structured notes at maturity is $5.2 million, a $0.4-million difference from its carrying value. The fair value change in structured notes attributable to changes in the corporation's credit risk in the current year is $0.5 million and, cumulatively, measured from the later of April 1, 2007, or the initial recognition of the structured notes, is $0.7 million. The change in fair value attributable to changes in the corporation's credit risk has been calculated by using the Government of Canada Agency Curve as a proxy for the credit risk of the corporation. The potential effect of using reasonable possible alternative assumptions for valuing structured notes would not have a material effect on the corporation's financial position or earnings. To determine reasonably possible alternative assumptions, the corporation adjusted key unobservable model inputs. These adjustments included de-correlating interest rates and subjecting parameters to a large shift.

14. Borrowings (continued)

Long-term debt by maturity date and yield

	March 31, 2012				
	Government of Canada		Capital markets		
($ thousands)	Carrying value	Yield	Carrying value	Yield	Total
From 1 – 2 years	$ 3,485,947	1.20%	$ 152,361	4.37%	$ 3,638,308
From 2 – 3 years	2,786,372	0.99%	–	–	2,786,372
From 3 – 4 years	2,514,257	1.04%	108,038	4.37%	2,622,295
From 4 – 5 years	907,491	1.03%	–	–	907,491
Over 5 years	511,160	2.16%	307,103	4.37%	818,263
	$10,205,227		$ 567,502		$ 10,772,729

	March 31, 2011				
	Government of Canada		Capital markets		
($ thousands)	Carrying value	Yield	Carrying value	Yield	Total
From 1 – 2 years	$ 3,370,598	1.22%	$ 244,625	4.15%	$ 3,615,223
From 2 – 3 years	3,180,427	1.23%	152,273	4.37%	3,332,700
From 3 – 4 years	2,570,992	0.99%	–	–	2,570,992
From 4 – 5 years	700,936	1.39%	107,951	4.37%	808,887
Over 5 years	226,935	2.73%	367,262	4.35%	594,197
	$10,049,888		$ 872,111		$ 10,921,999

	April 1, 2010				
	Government of Canada		Capital markets		
($ thousands)	Carrying value	Yield	Carrying value	Yield	Total
From 1 – 2 years	$ 3,038,961	0.58%	$ 363,050	4.07%	$ 3,402,011
From 2 – 3 years	3,119,473	0.65%	243,467	3.74%	3,362,940
From 3 – 4 years	925,424	1.85%	152,061	4.29%	1,077,485
From 4 – 5 years	75,257	2.80%	–	–	75,257
Over 5 years	322,239	3.04%	708,832	4.26%	1,031,071
	$ 7,481,354		$ 1,467,410		$ 8,948,764

15. Post-employment benefits

Financial position of benefit plans

The corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at March 31 of each year.

The amounts recognized in the Consolidated Balance Sheet are as follows:

	Registered pension plan		
($ thousands)	March 31, 2012	March 31, 2011	April 1, 2010
Present value of funded defined benefit obligations	$ (474,091)	$ (343,226)	$ (309,275)
Fair value of plan assets	338,641	315,593	270,942
Funded status	(135,450)	(27,633)	(38,333)
Change in liability arising from the impact of the minimum funding requirement on the asset ceiling test	–	–	(41,755)
Net liability for defined benefit obligations (1)	$ (135,450)	$ (27,633)	$ (80,088)

	Supplemental pension plans		
($ thousands)	March 31, 2012	March 31, 2011	April 1, 2010
Present value of funded defined benefit obligations	$ (41,391)	$ (24,462)	$ (23,533)
Fair value of plan assets	33,110	33,834	25,116
Funded status	(8,281)	9,372	1,583
Present value of unfunded defined benefit obligations	(9,546)	(7,606)	(7,172)
Net (liability) asset for defined benefit obligations (1)	$ (17,827)	$ 1,766	$ (5,589)

	Other benefits		
($ thousands)	March 31, 2012	March 31, 2011	April 1, 2010
Present value of unfunded defined benefit obligations	$ (70,783)	$ (51,036)	$ (43,512)
Net liability for defined benefit obligations (1)	$ (70,783)	$ (51,036)	$ (43,512)

(1) The total net liability for defined benefit obligations of all three plans is $224,060 (2011 – $86,275; 2010 – $130,772). This amount is recorded on the Consolidated Balance Sheet as retirement benefit liabilities. The total net asset for defined benefit obligations of all three plans is $nil (2011 – $9,372; 2010 – $1,583). This amount is recorded on the Consolidated Balance Sheet in other assets.

15. Post-employment benefits (continued)

Movements in the present value of the defined benefit obligation

	Registered pension plan		Supplemental pension plans		Other benefits	
($ thousands)	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011
Defined benefit obligation, beginning of year	$ 343,226	$ 309,275	$ 32,068	$ 30,705	$ 51,036	$ 43,512
Current service cost	13,669	12,962	1,078	1,134	3,617	3,182
Interest cost	19,579	18,536	1,804	1,813	2,978	2,660
Contributions by employees	4,048	4,052	46	51	–	–
Benefits paid	(10,007)	(7,932)	(767)	(682)	(672)	(813)
Actuarial losses (gains)	103,576	6,333	16,708	(953)	13,824	2,495
Defined benefit obligation, end of year	$ 474,091	$ 343,226	$ 50,937	$ 32,068	$ 70,783	$ 51,036

Movements in the fair value of plan assets

	Registered pension plan		Supplemental pension plans		Other benefits	
($ thousands)	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011
Fair value of plan assets, beginning of year	$ 315,593	$ 270,942	$ 33,834	$ 25,116	$ –	$ –
Expected return on plan assets	21,649	19,487	1,092	1,088	–	–
Actuarial (losses) gains	(9,006)	10,032	(1,380)	(218)	–	–
Contributions by corporation	16,364	19,012	46	8,243	672	813
Contributions by employees	4,048	4,052	46	51	–	–
Benefits paid	(10,007)	(7,932)	(528)	(446)	(672)	(813)
Fair value of plan assets, end of year	$ 338,641	$ 315,593	$ 33,110	$ 33,834	$ –	$ –

Defined benefit costs recognized in net income

	Registered pension plan		Supplemental pension plans		Other benefits	
($ thousands)	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011
Current service cost (1)	$ 13,669	$ 12,962	$ 1,078	$ 1,134	$ 3,617	$ 3,182
Interest on obligation (2)	19,579	18,536	1,804	1,813	2,978	2,660
Expected return on plan assets (3)	(21,649)	(19,487)	(1,092)	(1,088)	–	–
	$ 11,599	$ 12,011	$ 1,790	$ 1,859	$ 6,595	$ 5,842

(1) Total current service cost of $18,364 (2011 – $17,278) is recorded in benefits expense.
(2) Total interest on obligation of $24,361 (2011 – $23,009) is recorded in benefits expense.
(3) Total expected return on plan assets of $22,741 (2011 – $20,575) is netted within benefits expense.

15. Post-employment benefits (continued)

Defined benefit costs recognized in other comprehensive income

	Registered pension plan		Supplemental pension plans		Other benefits	
($ thousands)	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011
Net actuarial (losses) gains (1)	$ (112,582)	$ 3,699	$ (18,088)	$ 735	$ (13,824)	$ (2,495)
Change in liability arising from the impact of the minimum funding requirement on the asset ceiling (2)	–	41,755	–	–	–	–
	$ (112,582)	$ 45,454	$ (18,088)	$ 735	$ (13,824)	$ (2,495)

(1) Net actuarial losses of $144,494 (2011 – $1,939 gain) are recognized in other comprehensive income.
(2) This increase to OCI as at March 31, 2011, resulted from the decrease in the liability due to pension regulations, effective April 1, 2011, that allow plan sponsors with federally registered pension plans the option to use letters of credit in lieu of making solvency minimum funding payments for past service.

The cumulative actuarial losses recognized in OCI as at March 31, 2012, were $142.6 million (2011 – $1.9 million actuarial gain).

Actuarial (losses) gains are composed of the following:

	Registered pension plan		Supplemental pension plans		Other benefits	
($ thousands)	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011
Experience adjustments on plan liabilities	$ (2,973)	$ 10,284	$ (3,853)	$ 2,439	$ 26	$ 81
Experience adjustments on plan assets	(9,006)	10,032	(1,380)	(218)	–	–
Changes in assumptions	(100,603)	(16,617)	(12,855)	(1,486)	(13,850)	(2,576)
	$ (112,582)	$ 3,699	$ (18,088)	$ 735	$ (13,824)	$ (2,495)

Plan assets

The percentages of plan assets by asset type based on market values at the most recent actuarial valuation are as follows:

	Registered pension plan			Supplemental pension plans		
	March 31, 2012	March 31, 2011	April 1, 2010	March 31, 2012	March 31, 2011	April 1, 2010
Equity securities	60.0%	66.0%	63.0%	99.6%	96.0%	95.0%
Debt securities	34.5%	32.0%	35.0%	0.1%	4.0%	5.0%
Real estate	4.4%	–	–	–	–	–
Cash	1.1%	2.0%	2.0%	0.3%	–	–
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The actual return on plan assets was $12.4 million (2011 – $30.4 million).

15. Post-employment benefits (continued)

Significant assumptions

The significant assumptions used are as follows (weighted-average):

	Registered pension benefits		Supplemental pension plans		Other benefits	
	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011
Accrued benefit obligation						
Discount rate	4.25%	5.50%	4.25%	5.50%	4.25%	5.50%
Rate of compensation increase	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%
Defined benefit costs						
Discount rate	5.50%	5.75%	5.50%	5.75%	5.50%	5.75%
Expected return on plan assets	6.75%	7.00%	3.25%	3.75%	–	–
Rate of compensation increase	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%

Assumptions regarding future mortality are based on published statistics and mortality tables. As at March 31, 2012, the average life expectancy of an individual retiring at age 65 is 19 years for males and 22 years for females.

The overall expected return on plan assets for each of the registered and supplemental plans is based on the respective portfolios as a whole. The return is based exclusively on historical returns without adjustment.

Assumed health-care cost trend rates are as follows:

	2012	2011
Extended health-care and dental care cost escalation		
Initial rate	9.00%	9.00%
Ultimate rate	5.00%	5.00%
Year ultimate rate reached	2020	2020

15. Post-employment benefits (continued)

Sensitivity analysis

The impact of changing the key weighted-average economic assumptions used in measuring the pension and other benefit costs are as follows:

($ thousands)	Registered pension plan	Supplemental pension plans	Other benefits
1% decrease in expected long-term rate of return on assets			
Net benefit cost	$ 3,207	$ 336	$ –
1% decrease in discount rate			
Total of service and interest costs	4,047	274	1,250
Accrued benefit obligation	113,497	11,855	16,153
0.25% increase in rate of increase of future compensation			
Total of service and interest costs	428	148	31
Accrued benefit obligation	4,551	2,304	255
Assumed overall health-care cost trend rates on aggregate of service and interest cost components for period			
Impact of: 1% increase	–	–	1,579
1% decrease	–	–	(1,148)
Assumed overall health-care cost trend rates on accrued benefit obligation			
Impact of: 1% increase	–	–	12,875
1% decrease	–	–	(9,726)

Defined contribution plans

The cost of the defined contribution plans is recorded based on the contributions in the current year and is included in benefits expense. For the year ended March 31, 2012, the expense was $4.1 million (2011 – $3.8 million).

Total cash payments

Total cash payments for post-employment benefits, consisting of cash contributed by the corporation to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans and cash contributed to its defined contribution plan, were $21.8 million (2011 – $32.5 million).

Total cash payments for post-employment benefits for 2013, as described in the preceding paragraph, are anticipated to be approximately $31.3 million.

16. Other liabilities

($ thousands)	March 31, 2012	March 31, 2011	April 1, 2010
Reserve for insurance claims	7,734	6,970	4,412
Deferred revenues	2,926	2,212	2,201
Other	890	842	1,720
	$ 11,550	$ 10,024	$ 8,333

17. Net interest income

($ thousands)	March 31, 2012	March 31, 2011
Interest income		
Loans and receivables	$ 1,007,256	$ 929,733
Temporary investments designated as AFS	10,110	7,964
Transfer of net realized gains on derivatives designated as cash flow hedges from AOCI to net income	18,430	21,060
Hedging derivative financial assets and liabilities designated as cash flow hedges (net)	13,755	26,544
Venture capital investments designated at fair value through profit or loss	2,405	1,568
Finance leases	365	199
Operating leases	6,085	4,393
Foreign exchange gains (losses) on cash and loans and receivables	1,953	(2,979)
	1,060,359	988,482
Interest expense		
Short-term borrowings classified as other liabilities	48,931	31,265
Long-term borrowings classified as other liabilities	204,297	206,163
Borrowings designated at fair value through profit or loss	539	531
Derivative financial assets and liabilities classified as HFT (net)	(256)	(233)
Depreciation on equipment under operating leases	5,109	3,682
Transition Loan liabilities classified as other liabilities	2,183	–
Foreign exchange losses (gains) on cash and short-term borrowings classified as other liabilities (net)	2,295	(3,026)
	263,098	238,382
Net interest income	$ 797,261	$ 750,100

The total net fee income that was recognized immediately in net interest income arising from financial assets and liabilities not classified as held for trading was $3.8 million (2011 – $4.7 million). Interest income recognized from the unwinding of discounts on impaired financial assets was $6.7 million (2011 – $7.7 million).

18. Fair value adjustment

($ thousands)	March 31, 2012	March 31, 2011
Venture capital investments designated as fair value through profit or loss	$ 1,868	$ (1,156)
Long-term debt designated at fair value through profit or loss	431	(2,408)
Ineffectiveness of cash flow hedges	88	3,987
Guarantees	9	87
Derivative financial assets and liabilities classified as HFT	(399)	2,936
	$ 1,997	$ 3,446

19. Fair value of financial instruments

Financial instruments carried at fair value

The corporation follows a three-level fair value hierarchy to categorize the inputs used to measure fair value. Level 1 is based on quoted prices in active markets, Level 2 incorporates models using inputs other than quoted prices and Level 3 incorporates models using inputs that are not based on observable market data. Details of the valuation methodologies applied and assumptions used in determining fair value are provided in Note 2.

Valuation hierarchy

The following table categorizes the level of inputs used in the valuation of financial instruments carried at fair value:

	March 31, 2012			
($ thousands)	Level 1	Level 2	Level 3	Total
Assets				
Temporary investments	$ –	$ 83,813	$ –	$ 83,813
Derivative financial assets	–	67,408	490	67,898
Venture capital investments	2,694	–	50,833	53,527
	$ 2,694	$ 151,221	$ 51,323	$ 205,238
Liabilities				
Derivative financial liabilities	$ –	$ 84	$ –	$ 84
Structured notes	–	–	5,693	5,693
	$ –	$ 84	$ 5,693	$ 5,777

	March 31, 2011			
($ thousands)	Level 1	Level 2	Level 3	Total
Assets				
Temporary investments	$ –	$ 284,162	$ –	$ 284,162
Derivative financial assets	–	46,483	924	47,407
Venture capital investments	1,878	–	46,560	48,438
	$ 1,878	$ 330,645	$ 47,484	$ 380,007
Liabilities				
Derivative financial liabilities	$ –	$ 4,724	$ –	$ 4,724
Structured notes	–	–	6,128	6,128
	$ –	$ 4,724	$ 6,128	$ 10,852

	April 1, 2010			
($ thousands)	Level 1	Level 2	Level 3	Total
Assets				
Temporary investments	$ –	$ 199,818	$ –	$ 199,818
Derivative financial assets	–	65,585	1,360	66,945
Venture capital investments	2,104	–	49,910	52,014
	$ 2,104	$ 265,403	$ 51,270	$ 318,777
Liabilities				
Derivative financial liabilities	$ –	$ 4,591	$ 2,252	$ 6,843
Structured notes	–	–	26,500	26,500
	$ –	$ 4,591	$ 28,752	$ 33,343

19. Fair value of financial instruments (continued)

Level 3 financial instruments

The following table summarizes the changes in the Level 3 valuation hierarchy that occurred during the year:

	March 31, 2012			
($ thousands)	Derivative financial assets and liabilities	Venture capital investments	Structured notes	Total
Balance, beginning of year	$ 924	$ 46,560	$ (6,128)	$ 41,356
Net (losses) gains recognized in fair value adjustment	(433)	1,719	431	1,717
Change in accrued interest	(1)	196	4	199
Acquisitions	–	9,142	–	9,142
Repayments	–	(6,784)	–	(6,784)
Balance, end of year	$ 490	$ 50,833	$ (5,693)	$ 45,630

	March 31, 2011			
($ thousands)	Derivative financial assets and liabilities	Venture capital investments	Structured notes	Total
Balance, beginning of year	$ (892)	$ 49,910	$ (26,500)	$ 22,518
Net gains (losses) recognized in fair value adjustment	1,897	(932)	(2,408)	(1,443)
Change in accrued interest	(81)	(273)	76	(278)
Acquisitions	–	10,936	–	10,936
Repayments	–	(13,081)	22,704	9,623
Balance, end of year	$ 924	$ 46,560	$ (6,128)	$ 41,356

Net unrealized gains and losses relating to instruments still held at the reporting date recognized in the fair value adjustment are $1.7 million gain (2011 – $2.2 million loss).

19. Fair value of financial instruments (continued)

Financial instruments not carried at fair value

The estimated fair value of the corporation's financial instruments that do not approximate carrying values in the financial statements, using the methods and assumptions described below, are as follows:

	March 31, 2012		March 31, 2011		April 1, 2010	
($ thousands)	Carrying value	Estimated fair value	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Assets						
Loans receivable	$ 22,580,309	$ 22,862,225	$ 20,745,891	$ 20,927,526	$ 19,157,211	$ 19,355,521
Finance leases receivable	9,541	9,678	4,912	4,942	2,827	2,852
Liabilities						
Long-term debt excluding structured notes	10,772,507	10,895,906	10,915,871	10,998,293	8,922,264	9,021,227

The estimated fair value for the performing fixed-rate loans receivable is calculated by discounting the expected future cash flows at year-end market interest rates for equivalent terms to maturity. The estimated fair value for the performing variable-rate loans receivable is assumed to equal carrying value. The collective allowance for credit losses related to loans receivable is subtracted from the estimated fair value of the performing loans receivable. The estimated fair value of the impaired loans receivable is equal to their net realizable value, which is calculated by subtracting the individual allowance for credit losses from the book value of the impaired loans receivable.

The estimated fair value for the finance leases receivable is calculated by discounting the expected future cash flows at year-end market interest rates for equivalent terms to maturity. The collective allowance for credit losses related to finance leases is subtracted from the estimated fair value of the finance leases receivable.

The estimated fair value for long-term debt is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity, or by using quoted market prices where available.

For all other financial instruments carried at amortized cost, the carrying value is assumed to approximate fair value due to the relatively short period to maturity of these instruments. This applies to the corporation's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, other assets, short-term debt excluding structured notes, Transition Loan liability and other liabilities excluding the reserve for insurance claims.

20. Operating lease arrangements

Operating leases as a lessor

Operating leases consist of agricultural equipment leased to customers under non-cancellable operating lease agreements. The initial lease terms of operating leases range from two to five years.

The future minimum lease payments are receivable as follows:

($ thousands)	March 31, 2012	March 31, 2011
Amounts due		
Less than one year	$ 6,080	$ 4,164
Between one and five years	13,007	8,173
	$ 19,087	$ 12,337

Operating leases as a lessee

The corporation leases office space under operating leases. The lease terms are typically five to 10 years, with an option to renew the lease after that date.

The future minimum lease payments under non-cancellable lease contracts are payable as follows:

($ thousands)	March 31, 2012	March 31, 2011
Amounts due		
Less than one year	$ 22,259	$ 16,111
Between one and five years	61,514	38,250
More than five years	62,494	5,837
	$ 146,267	$ 60,198

Operating lease payments in the amount of $15.3 million (2011 – $13.7 million) have been included within facilities, software and equipment expenses.

21. Commitments, guarantees and contingent liabilities

Loan and lease commitments

As at March 31, 2012, loans approved but undisbursed amounted to $3,352.9 million (2011 – $2,821.8 million). These loans were approved at an average interest rate of 4.13% (2011 – 4.25%) and do not form part of the loans receivable balance until disbursed. As many of these loan approvals will expire or terminate without being drawn upon, the contract amounts do not necessarily represent future cash requirements. As at March 31, 2012, finance leases approved but undisbursed amounted to $2.1 million (2011 – $2.0 million) and operating leases approved but undisbursed amounted to $2.3 million (2011 – $0.8 million). These leases do not form part of the finance leases receivable or equipment under operating leases balances until disbursed. These commitments do not generate liquidity risk to the corporation because it has sufficient funds available from the Government of Canada to meet its future cash requirements. The Government of Canada makes short-term and long-term funding available to the corporation through the Crown Borrowing Program.

Operating commitments

Future minimum payments on contracts for technology services are payable as follows:

($ thousands)	March 31, 2012	March 31, 2011
Amounts due		
Less than one year	$ 9,451	$ 3,297
Between one and five years	26,172	665
	$ 35,623	$ 3,962

Capital commitments

Capital expenditure contracted for computer software at the end of the fiscal year but not yet incurred is $20.4 million (2011 – $4.2 million).

Guarantees

In the normal course of its business, the corporation issues guarantees in the form of letters of credit that represent an obligation to make payments to third parties on behalf of its customers if customers are unable to make the required payments or meet other contractual obligations. The maximum amount potentially payable as at March 31, 2012, is $1.6 million (2011 – $2.5 million). In the event of a call on these letters of credit, the corporation has recourse in the form of security against its customers for amounts to be paid to the third party. Existing items will expire within three years, usually without being drawn upon. As at March 31, 2012, an amount of $nil (2011 – $nil) was recorded for these letters of credit.

Contingent liabilities

Various legal proceedings arising from the normal course of business are pending against the corporation. No amount has been included in the consolidated financial statements as at March 31, 2012, for these contingent liabilities as management does not expect the outcome to have a significant effect on the consolidated financial statements.

In the normal course of operations, the corporation enters into agreements that provide general indemnification. These indemnifications typically occur in service contracts and strategic alliance agreements, and, in certain circumstances, may require that the corporation compensates the counterparty to the agreement for various costs resulting from breaches of representations or obligations. The corporation also indemnifies directors, officers and employees, to the extent permitted by law and the corporation's governing legislation, against certain claims that may be made against them as a result of their being directors, officers or employees. The terms of these indemnifications vary, therefore the corporation is unable to determine a reasonable estimate of the maximum potential amount the corporation could be required to pay to counterparties. Historically, the corporation has not made any payments under such indemnifications and contingencies. No amount has been included in the consolidated financial statements as at March 31, 2012, for these indemnifications and contingencies.

22. Related party transactions

The corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations.

The corporation is related to Avrio Fund I and Avrio Fund II. Avrio Fund I and Avrio Fund II are limited partnerships for which the corporation holds 67% (2011 – 67%; 2010 – 67%) and 99% (2011 – nil%; 2010 – nil%), respectively, of the partnership units. Avrio Fund I and Avrio Fund II are subsidiaries of the corporation. All transactions between the corporation and its subsidiaries have been eliminated on consolidation, and as such are not disclosed as related party transactions.

Other related parties of the corporation are key management personnel, close family members of key management personnel and entities that are controlled, significantly influenced by, or for which significant voting power is held by key management personnel or their close family members, and post-employment benefit plans for the benefit of the corporation's employees.

Transactions with these entities were entered into in the normal course of business and are measured according to the relevant IFRS standard applicable to the transaction.

Transactions with the Government of Canada

The Government of Canada guarantees the borrowings of the corporation.

The corporation enters into short- and long-term borrowings with the Government of Canada through the Crown Borrowing Program. As at March 31, 2012, the balances outstanding with the Government of Canada were $9,223.2 million in short-term debt (2011 – $7,609.4 million; 2010 – $8,512.9 million) and $10,205.2 million in long-term debt (2011 – $10,049.9 million; 2010 – $7,481.4 million). For the year ended March 31, 2012, $198.3 million (2011 – $155.8 million) was recorded in interest expense relating to these borrowings.

The corporation receives government assistance to share the credit losses on certain loans with the Government of Canada. The government assistance is recorded as either an increase or decrease to the provision for credit losses. For the year ended March 31, 2012, the increase (decrease) recorded to the provision for credit losses was $0.9 million (2011 – $(0.6) million). The amount estimated to be returned to the Government of Canada is included in the long-term debt balances above.

The corporation pays a dividend to the Government of Canada on an annual basis, as detailed in Note 23.

22. Related party transactions (continued)

Key management personnel compensation

Key management personnel includes directors and members of the Executive Management Team. Close family members of key management personnel are considered related parties and have been included in the amounts disclosed below.

The compensation paid during the year to key management personnel for services rendered is shown below:

($ thousands)	March 31, 2012	March 31, 2011
Salaries and other short-term employee benefits	$ 3,390	$ 3,802
Post-employment benefits	704	727
Board retainer and per diems	213	220
Total	$ 4,307	$ 4,749

Transactions with key management personnel

All transactions with key management personnel are with directors and entities related to those directors. The terms and conditions of the transactions with key management personnel were no more favourable than those available on similar transactions with other customers.

	2012		2011		2010
($ thousands)	Maximum balance during the year	Balance as at March 31	Maximum balance during the year	Balance as at March 31	Balance as at April 1
Loans	$ 6,205	$ 5,446	$ 7,668	$ 6,824	$ 7,217
Leases	36	24	42	36	–

The weighted average interest rate on the loans to key management personnel outstanding as at March 31, 2012, was 6% (2011 – 6%; 2010 – 6%).

The loans and leases to key management personnel are secured under similar conditions as transactions with other customers and the key management personnel entering into these transactions were subject to the same credit assessment process applied to all customers. No individual allowance has been established in 2012 for the loans or leases made to key management personnel (2011 – $nil).

Undrawn credit commitments with key management personnel totalled $5.2 million as at March 31, 2012 (2011 – $0.1 million).

The corporation has received $nil in insurance premiums during the year ended March 31, 2012 (2011 – $6.6 thousand) from key management personnel to insure a total amount of $nil as at March 31, 2012 (2011 – $0.9 million).

Transactions with post-employment benefit plans

During the year, $52.6 thousand was received from the defined benefit plan (2011 – $104.8 thousand) for administrative services and was recorded in benefits expense.

23. Capital management

The corporation's objectives when managing capital are to:

- generate a sufficient rate of return from operations to remain financially self-sustaining and to fund growth and strategic initiatives
- have the capability to withstand market fluctuations intrinsic to the agriculture industry while continuing to support its customers through all economic cycles
- comply with its external covenant imposed by the Farm Credit Canada Act that restricts the total direct and contingent liabilities of the corporation to 12 times its equity, or up to 15 times with prior approval

There has been no change to the corporation's objectives, policies or procedures for managing capital from the prior year.

The capital of the corporation consists of retained earnings, AOCI, contributed surplus, allowance for credit losses and non-controlling interest in special purpose entity. One of the measures that the corporation reviews is the percentage of assets not requiring funding through borrowings. The corporation's level of capitalization and the percentage of gross assets not requiring funding through borrowings are as follows:

($ thousands)	March 31, 2012	March 31, 2011	April 1, 2010
Retained earnings	$ 2,340,813	$ 1,938,466	$ 1,452,328
Accumulated other comprehensive income	203,477	181,804	203,603
Contributed surplus	547,725	547,725	547,725
Allowance for credit losses (1)	622,094	655,462	656,518
Non-controlling interest in special purpose entity	16,158	13,376	9,461
Total capitalization	$ 3,730,267	$ 3,336,833	$ 2,869,635
Gross assets	$ 24,451,139	$ 22,526,174	$ 20,907,800
Capitalization as a percentage of gross assets	15.26%	14.81%	13.73%

(1) The allowance for credit losses has been restated as at March 31, 2011 and April 1, 2010.

Limits on borrowing

As at March 31, 2012, the corporation's total direct and contingent liabilities were 7.17 times the shareholder's equity, excluding AOCI (2011 – 7.72 times the shareholder's equity, excluding AOCI; 2010 – 9.02 times the shareholder's equity, excluding AOCI), which was within the limit established by the Farm Credit Canada Act.

Contributed surplus

Contributed surplus of the corporation consists of capital contributions made by the Government of Canada net of the March 31, 1998 reallocation of $660.6 million to eliminate the corporation's accumulated deficit.

As at March 31, 2012, capital payments received from the Government of Canada amounted to $1,208.3 million (2011 – $1,208.3 million; 2010 – $1,208.3 million). The statutory limit for that same period was $1,250.0 million (2011 – $1,250.0 million; 2010 – $1,250.0 million).

Dividend

On October 5, 2011, the Board declared a dividend based on the results of the year ended March 31, 2011, in the amount of $17.5 million (2011 – $18.5 million based on the year ended March 31, 2010; 2010 – $18.6 million based on the year ended March 31, 2009) to the corporation's shareholder, the Government of Canada, which was paid on March 26, 2012.

24. Risk management

Risk governance

The corporation has established a governance framework that includes a number of policies and internal committees to guide corporate decision-making. The Board provides oversight for this internal corporate governance framework. The Board's committees are responsible for developing and monitoring aspects of the corporation's overall risk management policies, processes and practices. The internal committees report regularly to the Board's Audit Committee.

The Audit Committee assists the Board in fulfilling its responsibilities by ensuring that management has identified key risks and has put in place policies, control systems and practices to manage these risks. The Audit Committee receives semi-annual reports from management outlining major risk areas and corresponding risk management measures implemented to provide assurance that the corporation is effectively managing risk.

Financial risk management

The corporation has identified the major categories of financial risk to which it is exposed as credit risk and market risk.

a) Credit risk

Credit risk is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet its financial obligations to the corporation. Credit risk on loans is the most significant risk that the corporation faces.

Management of credit risk

The Board has overall responsibility for the management of credit risk and relies on a number of divisions and committees to effectively manage credit risk that impacts the corporation:

- Portfolio and Credit Risk conducts industry, economic and portfolio analysis and reports to the various risk committees, including the Audit Committee. A number of areas within this division are involved in managing credit risk for the corporation. They include:
  - Portfolio Analysis and Modelling is responsible for the management, design and development of lending and credit risk-related models, lending scorecards and tools, and makes recommendations to the Asset Liability Committee (ALCO) to ensure that these models, scorecards and tools appropriately balance risk mitigation, growth and profitability.
  - Credit Policy and Process Management is responsible for the management of the corporation's credit policies and makes recommendations to the Credit Policy Committee to ensure that there is an appropriate balance between risk mitigation, profitability and growth. It also reviews, enhances and clarifies credit policies and communicates policy changes to employees. Credit Policy and Process Management provides ongoing interpretation of policy in relation to general and specific lending situations.
  - Credit Risk manages risk for larger loans as well as loans above established risk thresholds. It is responsible for the credit-related delegation of authorities, credit education, coaching and credit authorization. Special Credit is a function within Credit Risk that manages and resolves higher-risk accounts experiencing challenges through intensive management of accounts, arrears collection and recovery actions.
  - Corporate Credit is responsible for credit education, coaching and credit authorization for larger loan applications, including Credit Committee recommendations.
  - Valuation researches land sales, maintains benchmark data on land values and appraises the value of the corporation's security with particular emphasis on specialized enterprises and agribusinesses.

24. Risk management (continued)

- Operations is delegated authorities over lending and is responsible for managing credit risk on loans in its portfolio. Authority is granted on the basis of credit training and demonstrated competence, and credit decisions are made at an authority level appropriate to the size and risk of each loan. The division monitors customer and loan performance throughout the life of the loan through ongoing account management as well as the account review process.
- Treasury is responsible for managing counterparty credit risk related to derivative and investment activities. The division reviews counterparty credit rating actions and financial performance.

The following internal committees are involved in the management of credit risk at the corporation:

- ALCO directs the asset/liability management function, including the establishment and maintenance of portfolio risk management policies and procedures, loan pricing direction, integration with corporate strategies and achievement of portfolio return targets.
- Credit Policy Committee oversees the development of lending policies and ensures that they reflect the corporation's credit risk tolerance, industry best practices and compliance with federal, provincial and regional laws and regulations.
- Credit Committee reviews and makes lending decisions on loan applications in excess of the prescribed limits.
- Venture Capital Investment Committee adjudicates investment recommendations and reviews the performance of venture capital investments held directly by the corporation.

Measurement of credit risk

Portfolio and Credit Risk assesses credit risk at the aggregate level, providing risk policies and assessment tools and models that quantify credit risk and allowance for credit losses. The division also monitors the agriculture and agri-food operating environments to ensure that the corporation's lending policies, activities and prices are appropriate and relevant.

Policies, processes, systems and strategies are used to manage the credit risk of the corporation's portfolio. Each year, Portfolio and Credit Risk presents a comprehensive portfolio vision that summarizes many of these tools, models and strategies to the Board for approval. Numeric targets associated with many of these tools are set annually to assist in achieving the portfolio vision.

Significant research, modelling, validation and interpretation are used to determine the targets for each tool as follows:

Economic capital

The corporation monitors available capital less credit economic capital requirements. Economic capital models are widely used by financial institutions to measure loan portfolio risk and are considered best practice by the International Association of Credit Portfolio Managers. The main benefits of an economic capital model are to:

- measure transaction, concentration and correlation risk
- stress test the loan portfolio to estimate losses with a certain level of probability
- measure trends over time
- allow for risk-adjusted comparisons of geographic areas and business lines

Portfolio diversification plan

The portfolio diversification plan outlines the desired range for portfolio composition in five years, including diversification across enterprises, geographical areas and business lines. The desired range is evaluated against other realistically achievable scenarios considering growth, profit, risk and market share impacts.

In addition, each year the portfolio vision also establishes customer exposure limits and approval authorities.

24. Risk management (continued)

Risk scoring and pricing system

The risk scoring and pricing system (RSPS) is used to rank risk for loans in the corporation's portfolio. Risk ranking is based on customer, loan and enterprise characteristics, and generates scores ranging from 400 to 999 points. Each score translates into a probability of default. The higher the score, the lower the probability of default. RSPS is also used to price loans.

RSPS scores are based on inputs that are categorized under four main themes:

- customer credit rating and historical payment performance
- customer financial ratios
- customer business experience
- customer primary enterprise

RSPS weights each characteristic differently to arrive at the final RSPS score. These weightings are based on the corporation's historical experience and are set with the objective to maximize the system's ability to predict probability of default.

The target risk score for the corporation's portfolio for new lending is 770. The portfolio's current risk score for new lending is 804 (2011 – 803) and the portfolio's overall risk score is 808 (2011 – 803).

Loan loss model

The loan loss model estimates the losses within the portfolio due to credit risk. There are two components to the loan loss model: individual and collective. The individual loan losses are determined for non-performing loans when, in management's opinion, there has been a deterioration of credit quality to the extent that the corporation no longer has reasonable assurance of timely collection of the full amount of principal and interest. In addition, individual loan losses are determined for loans that have met both of the following criteria:

- greater than $500 in arrears for 90 days or more
- security insufficient to fully recover amounts outstanding

Collective loan losses are calculated losses on loans within the portfolio that have met at least one of three indicators of impairment:

- arrears of $500 or greater but not more than 90 days
- an adjustment to the terms of the loan in the past year
- a drop in the RSPS risk score of 15 or more points in the past year

The collective allowance is also based on those losses that have been incurred but have not yet exhibited evidence of the loss. Based on historical experience, there is an emergence period of when impairment occurs to when it becomes evident in the portfolio. From the emergence period, migration rates are used to determine incurred losses within the portfolio that are not yet evident. For all components of the loss model, the model considers the security position to estimate the appropriate amount of loss allowance.

On a monthly basis, ALCO is provided with a report that illustrates various measures of the loan portfolio's credit risk on an overall basis, by industry enterprise and by business line. Macro measures that demonstrate the health of the portfolio are as follows:

	March 31, 2012	March 31, 2011
Weighted average loan-to-security ratio for secured portfolio	57.0%	57.8%
Unsecured portfolio as a percentage of total owing	2.3%	2.3%
Arrears as a percentage of total owing	2.1%	2.1%

24. Risk management (continued)

Collateral

The corporation mitigates its credit risk by employing policies and practices for collateral requirements. Credit policy establishes collateral guidelines and standards. The corporation monitors the portfolio by reviewing the loan-to-security ratio, both on an overall portfolio basis and by enterprise. Upon initial recognition of a loan, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets at intervals prescribed by policy. The form of collateral obtained is generally real estate, quotas or equipment, depending on the purpose of the loan.

Loan commitments

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk, the corporation is potentially exposed to loss in an amount equal to the total unused commitments. See Note 21 for further details regarding the corporation's loan commitments.

Maximum exposure to credit risk before collateral held or other credit enhancements

($ thousands)	March 31, 2012	March 31, 2011	April 1, 2010
On-balance sheet			
Temporary investments	$ 83,813	$ 284,162	$ 199,818
Accounts receivable	16,356	12,786	32,818
Derivative financial assets	67,898	47,407	66,945
Loans receivable	22,580,309	20,745,891	19,157,211
Finance leases receivable	9,541	4,912	2,827
Venture capital investments	53,527	58,024	59,987
Other assets	4,028	3,651	3,226
	22,815,472	21,156,833	19,522,832
Off-balance sheet			
Financial guarantees	1,580	2,513	3,703
Loan and lease commitments	3,357,337	2,824,623	2,720,946
	3,358,917	2,827,136	2,724,649
Total maximum exposure to credit risk	$ 26,174,389	$ 23,983,969	$ 22,247,481

The preceding table represents a worst-case scenario of credit risk exposure to the corporation at the end of the year, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out are based on net carrying values as reported in the balance sheet. For off-balance sheet items, the exposure is based upon the maximum amount that the corporation would have to pay if the item was called upon.

24. Risk management (continued)

Loans receivable

Loans receivable in arrears but not impaired

A loan is considered to be in arrears when a customer has not made a payment by the contractual due date and the amount owing is greater than $500. Loans less than 90 days in arrears are not considered impaired, unless other information is available to the contrary. As well, loans in arrears are not considered impaired if there is adequate security and collection efforts are reasonably expected to result in full repayment. The longer that the customer is in arrears and interest continues to accrue, the greater the risk that the recoverable amount from the security value is less than the carrying value of the loan. Gross amounts of loans that were in arrears but not impaired were as follows:

($ thousands)	March 31, 2012	March 31, 2011 Restated
In arrears but not impaired		
Up to 30 days	$ 58,744	$ 75,544
31 – 60 days	63,978	100,430
61 – 89 days	25,667	61,843
90 days or more	110,290	90,375
	$ 258,679	$ 328,192

Loans receivable neither in arrears nor impaired

The credit quality of loans that were neither in arrears nor impaired can be assessed by reference to the corporation's RSPS scores. Total owing for each RSPS score bucket as a percentage of total owing that are neither in arrears nor impaired is as follows:

	March 31, 2012	March 31, 2011
RSPS score		
400-650	0.6%	1.1%
651-769	16.1%	18.7%
770-850	63.8%	61.6%
851-999	19.5%	18.6%
	100.0%	100.0%

The majority of the RSPS scores are updated on a monthly basis. For certain types of loans different approval and credit management processes are used and these represent approximately 2% of the corporation's total portfolio.

Real estate property acquired

During the year, the corporation acquired real estate property from customers in the settlement of loan commitments with a carrying value of $2.1 million (2011 – $2.2 million; 2010 – $2.0 million). Real estate property acquired is sold as soon as practicable with the proceeds used to reduce the outstanding customer loan balance.

Counterparty credit risk – derivatives and temporary investments

Credit risk arises from the potential for a counterparty to default on its contractual obligation to the corporation. To mitigate this risk, the corporation complies with the guidelines issued by the Minister of Finance by entering into derivatives with counterparties of high credit quality only, as determined by the published ratings of external credit rating agencies. Counterparty credit risk is managed via the corporation's Board-approved counterparty credit risk guidelines, which specify the maximum exposure that the corporation will accept for each level of credit rating.

24. Risk management (continued)

In the normal course of business, the corporation receives collateral on certain transactions to reduce its exposure to counterparty credit risk. The corporation is normally permitted to sell, dispose, invest or re-pledge the collateral it receives under terms that are common and customary to standard derivative activities.

The counterparty derivative obligation may arise when market-related currency and interest factors change resulting in unrealized gains to the corporation. These unrealized gains result in positive fair values for these derivative instruments. The corporation is not exposed to credit risk for the full notional amount of the derivative contracts, but only to the potential replacement cost if the counterparty defaults. Furthermore, standard credit mitigation via master netting agreements provided in the International Swap and Derivatives Association (ISDA) documentation provide for the simultaneous closeout and netting of positions with a counterparty in the event of default. Credit Support Annex (CSA) documentation is also in place with most of the corporation's counterparties. These agreements are addendums to existing ISDA documentation, and further specify the conditions for providing the corporation with collateral in the event that the counterparty credit exposure exceeds an agreed threshold. For derivative transactions where a CSA is in place, the counterparty must have a minimum long-term credit rating of A- from two or more external credit rating agencies (Standard & Poor's, Moody's or DBRS). See Note 5 and Note 14 for the quantification of counterparty credit risk.

ALCO and the Board have established an investment policy that sets minimum credit ratings for temporary investments and limits the size and composition of the total investment portfolio. For temporary investment activity with term to maturity equal to or less than one year, counterparties must have a minimum short-term credit rating of A1+/R1-low/P-1 from two or more external credit rating agencies. The actual credit ratings will determine the maximum face amount of investments per counterparty.

The corporation has controls and policies in place to protect against and minimize loss due to counterparty default. The Treasury division reviews credit ratings and counterparty financial performance regularly and recommends policy changes to ALCO and the Board.

Venture capital debt investments

The corporation is exposed to credit risk through its venture capital debt investments. The corporation manages credit risk through thoughtful planning, strict investment criteria, significant due diligence of investment opportunities and by conducting activities in accordance with investment policies. The Investment Manager monitors and reports on the financial condition of investee companies regularly.

b) Market risk

Market risk is the potential for financial loss to the corporation as a result of adverse changes in underlying market factors, such as interest rates and foreign exchange rates associated with investments, and the corporation's exposure to liquidity risk.

The corporation has market risk policies and limits to ensure that exposures to interest rate, foreign exchange risks and liquidity risks are identified, measured, managed and reported on a timely basis. Market risk policies are regularly reviewed by ALCO and are approved by the Board. The corporation's policies and processes are based on industry best practices and the Minister of Finance Financial Risk Management Guidelines for Crown Corporations. The Treasury division is responsible for implementing market risk management directives and reports regularly to ALCO and the Board on its activities and asset/liability positions.

24. Risk management (continued)

Interest rate risk

Interest rate risk is the risk that a change in interest rate adversely affects the corporation's net interest income and fair value measurements. Interest rate risk arises from interest rate mismatches between assets and liabilities and embedded options. Interest rate mismatches occur because of different maturity and re-pricing dates, residual assets funded by equity and different interest rate benchmarks for some assets and liabilities. Embedded options exist on fixed-rate loans that have principal deferral options, prepayment features and interest rate guarantees on loan commitments.

Exposure to interest rate risk is monitored primarily through an asset/liability model. Various scenarios are produced at least monthly to analyze the sensitivity of net interest income and fair values to a change in interest rates and balance sheet assumptions. The asset/liability model is back-tested and validated to ensure that the logic and assumptions used in the model are reasonable when compared to actual results.

Interest rate risk management is governed by policy, which has defined limits based on the projected impact of a 2.0% change in interest rates. The defined limit for variability of net interest income is that for the next 12-month period net interest income should not decline by more than 10.0%. The second defined limit is that the market value of portfolio equity (MVPE) should not decline by more than 10.0% of total equity (excluding accumulated other comprehensive income) for a 2.0% immediate and sustained change in the level and term structure of interest rates. Based on the corporation's financial position as at March 31, 2012, assuming an immediate and sustained 2.0% change in interest rates occurs across all maturities and curves, net interest income and the MVPE would be affected over the next 12 months as follows:

	2012 Impact of		2011 Impact of	
($ thousands)	2% increase	0.85% decrease (1)	2% increase	0.85% decrease (1)
Projected net interest income variability	$ (3,599)	$ 1,054	$ 5,919	$ (2,674)
Limit	82,073	(82,073)	78,922	(78,922)
MVPE variability	(224,065)	91,441	(188,100)	80,600
Limit	(303,303)	303,303	(244,250)	244,250

(1) The lowest rate on the yield curves used in the model was 0.85% (2011 – 0.85%) to avoid using negative rates.

The corporation has a third defined limit that addresses its exposure to commitment risk. Commitment risk is the risk that interest rates rise after the corporation has committed to a lower interest rate to the customer. The policy states that the decline in the fair value of the interest guarantees on new loans and renewals cannot exceed 0.5% of total equity (excluding accumulated other comprehensive income) for a 0.5% increase in rates. The net decrease in the fair value of undisbursed loans if there was a 0.5% rate increase was $4.2 million as at March 31, 2012 (2011 – $2.5 million), which was within the policy limit of $15.2 million (2011 – $10.1 million).

24. Risk management (continued)

The following table summarizes the corporation's interest rate risk based on the gap between the carrying value of assets, and liabilities and equity, grouped by the earlier of contractual re-pricing or maturity dates and interest rate sensitivity. In the normal course of business, loan customers frequently prepay their loans in part or in full before the contractual maturity date.

($ thousands)	Immediately rate-sensitive	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest-sensitive	Total
Assets							
Cash and cash equivalents	$ –	$ 866,524	$ –	$ –	$ –	$ 37,693	$ 904,217
Yield	–	1.03%	–	–	–	–	
Temporary investments	–	83,713	–	–	–	99	83,812
Yield (1)	–	1.09%	–	–	–	–	
Derivative financial assets (3)	–	–	–	–	–	67,898	67,898
Loans receivable	14,608,728	850,025	1,523,119	5,163,982	763,275	(328,820)	22,580,309
Yield (1)	3.92%	5.86%	5.36%	4.91%	5.51%	–	
Finance leases receivable	–	876	1,802	6,929	–	(67)	9,541
Yield (1)	–	5.60%	5.60%	5.60%	–	–	
Venture capital investments	2,371	–	1,956	8,814	–	40,386	53,527
Yield (1)	12.00%	–	9.12%	12.68%	–	–	
Other	–	–	–	–	–	129,739	129,739
Total assets	$ 14,611,099	$ 1,801,138	$ 1,526,877	$ 5,179,725	$ 763,275	$ (53,072)	$ 23,829,043
Liabilities and equity							
Non-structured borrowings	$ –	$ 17,731,848	$ 175,185	$ 1,645,736	$ 737,065	$ 46,017	$ 20,335,851
Yield (1)	–	0.96%	2.42%	2.60%	3.17%	–	
Structured borrowings	–	–	5,000	186	–	358	5,544
Yield (1)	–	–	–	6.00%	–	–	
Total borrowings	–	17,731,848	180,185	1,645,922	737,065	46,375	20,341,395
Derivative financial liabilities (2)(3)	–	334,304	(1,635)	(94,675)	(237,994)	84	84
Yield (1)	–	1.04%	(11.45)%	4.27%	4.54%	–	
Other	–	–	–	–	–	395,548	395,548
Shareholder's equity	–	–	–	–	–	3,092,016	3,092,016
Total liabilities and equity	$ –	$ 18,066,151	$ 178,550	$ 1,551,247	$ 499,071	$ 3,534,023	$ 23,829,043
Total gap 2012	$ 14,611,099	$(16,265,013)	$ 1,348,327	$ 3,628,478	$ 264,204	$ (3,587,095)	$ –
Total cumulative gap 2012	$ 14,611,099	$ (1,653,914)	$ (305,587)	$ 3,322,890	$ 3,587,095	$ –	$ –
Total gap 2011	$ 14,381,551	$(15,750,606)	$ 1,267,592	$ 2,624,612	$ 533,576	$ 3,056,725	$ –
Total cumulative gap 2011	$ 14,381,551	$ (1,369,055)	$ (101,463)	$ 2,523,149	$ 3,056,725	$ –	$ –
Total gap 2010	$ 12,910,440	$(13,742,619)	$ 905,970	$ 2,115,636	$ 480,209	$ (2,669,636)	$ –
Total cumulative gap 2010	$ 12,910,440	$ (832,179)	$ 73,791	$ 2,189,427	$ 2,669,636	$ –	$ –

(1) Represents the weighted-average effective yield based on the earlier of contractual re-pricing or maturity date.

(2) Represents notional principal amounts on derivatives.

(3) The notionals for derivatives with a positive fair value have been netted against derivatives with a negative fair value and are included with derivative financial liabilities.

24. Risk management (continued)

Foreign exchange risk

The corporation is exposed to foreign exchange risk due to differences in the amount and timing of foreign currency denominated asset and liability cash flows. The currency exposure is minimized by matching foreign currency loans against foreign currency funding. This risk cannot be perfectly hedged, because the assets are amortizing loans and the liabilities are discount bonds, which creates timing mismatches for the principal and interest cash flows. However, the corporation has determined that the residual risk is insignificant.

The corporation's policy is to mitigate foreign exchange risk. All foreign currency borrowings are fully hedged at the time of issuance, unless the foreign currency denominated debt is used specifically to finance a like currency asset. The Board's policy limit for the foreign currency funding to foreign currency asset hedge ratio is a range of 90% to 110%. The corporation's actual ratio as at March 31, 2012, is 97.7% (2011 – 98.4%; 2010 – 99.0%).

Derivatives

The corporation uses derivatives to hedge interest rate and foreign exchange risk. Derivatives alter the risk profile of the consolidated balance sheet by reducing mismatches of assets and liabilities, while ensuring interest rate risk and foreign exchange risk are managed within policy limits.

When derivative transactions qualify for hedge accounting, derivatives are designated as cash flow hedges and are accounted for as described in Note 2. Derivative transactions that do not qualify for hedge accounting are still considered economic hedges. Economic hedges that do not qualify for hedge accounting may lead to net income volatility because the derivatives are recorded at fair value and this volatility may not be representative of the overall risk.

Liquidity risk

Liquidity risk is the risk that the corporation cannot meet a demand for cash or fund its obligations at a reasonable cost as they become due.

The corporation measures, forecasts and manages cash flow as an integral part of liquidity management. The corporation's objective is to maintain sufficient funds to meet customer and business operational requirements.

The corporation maintains liquidity through:

- a liquid investment portfolio – cash and cash equivalents, and temporary investments of $988.0 million were on hand as at March 31, 2012 (2011 – $886.0 million; 2010 – $827.8 million)
- access to short-term funding – the corporation's access to funding through the Crown Borrowing Program and capital markets provides the corporation with sufficient liquidity to meet daily cash requirements
- access to a $30.0-million bank operating line of credit

The following table shows the undiscounted cash flows of the corporation's financial liabilities on the basis of their earliest possible contractual maturity. The gross nominal cash flows represent the contractual undiscounted cash flows relating to the principal and interest on the financial liability. The corporation's expected cash flows on certain instruments varies significantly from this analysis. For example, certain borrowings that may be prepaid by the corporation have not been included in their earliest possible maturities due to being impracticable to estimate.

24. Risk management (continued)

Residual contractual maturities of financial liabilities

	March 31, 2012						
($ thousands)	Carrying value	Gross nominal inflow (outflow)	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years
Non-derivative financial liabilities							
Borrowings	$ 20,341,395	$(20,339,669)	$ (2,849,134)	$ (1,964,905)	$ (4,777,537)	$ (9,938,922)	$ (809,171)
Derivative financial liabilities							
Carrying value	84	–	–	–	–	–	–
Cash inflows	–	43	–	38	5	–	–
Cash outflows	–	(127)	–	(81)	(46)	–	–
	$ 20,341,479	$(20,339,753)	$ (2,849,134)	$ (1,964,948)	$ (4,777,578)	$ (9,938,922)	$ (809,171)

	March 31, 2011						
($ thousands)	Carrying value	Gross nominal inflow (outflow)	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years
Non-derivative financial liabilities							
Borrowings	$ 18,951,919	$(18,949,344)	$ (2,294,261)	$ (2,968,427)	$ (2,797,777)	$(10,303,461)	$ (585,418)
Derivative financial liabilities							
Carrying value	4,724	–	–	–	–	–	–
Cash inflows	–	22,957	–	980	5,786	16,191	–
Cash outflows	–	(27,998)	–	(783)	(4,605)	(22,610)	–
	$ 18,956,643	$(18,954,385)	$ (2,294,261)	$ (2,968,230)	$ (2,796,596)	$(10,309,880)	$ (585,418)

Insurance risk management

Assumptions and measurement uncertainty

The corporation's insurance provider determines the reserve for insurance claims actuarially using the Canadian Asset Liability Method (CALM). Under CALM, the future cash flows from the insurance contracts and the assets that support them are dynamically projected in a number of scenarios prescribed by the Canadian Institute of Actuaries (CIA), using current best estimate assumptions with provisions for adverse deviation. The corporation engages independent actuaries from time to time to review its insurance program to ensure that the assumptions, methodologies and processes are prudent.

In calculating the reserve for insurance claims, assumptions must be made about interest rates, asset default, inflation, mortality and morbidity rates, policy terminations, expenses and other factors over the life of the insurance policies. Best estimate assumptions are used for expected future experience. Additional provisions are included in the reserve for insurance claims to provide for possible adverse deviations from the best estimate. If the assumption is more susceptible to change or if there is more uncertainty about the underlying best estimate assumption, a correspondingly larger provision is included in the reserve for insurance claims. There have been no changes in assumptions that have significantly affected the reserve for insurance claims in the current fiscal year.

24. Risk management (continued)

The provisions are reviewed for reasonableness when taken one at a time and also in total. The best estimate assumptions and margins for adverse deviation are reviewed annually and revisions are made where deemed necessary and prudent. The assumptions with the greatest potential impact on net income are mortality and investment returns.

Insurance mortality refers to the rates at which death occurs for defined groups of people and are generally based on corporation five-year average experience. In general, assumed mortality rates do not reflect any future expected improvement, except in some instances where the net effect of reflecting future improvement increases the policy liabilities.

Assumptions related to investment returns include expected future credit losses on fixed income investments. Past corporation experience and industry experience over the long term as well as specific reviews of the current portfolio are used to project credit losses.

Assumptions for termination experience are generally based on corporation five-year average experience.

Expense assumptions are based on corporation recent experience using an internal expense allocation methodology.

25. Subsequent events

The Board approved the consolidated financial statements on May 30, 2012. There were no subsequent events requiring recognition or disclosure within the consolidated financial statements between March 31, 2012, and the date of approval.

Glossary

Agribusiness and agri-food

Includes customers who are suppliers or processors who are selling to, buying from and otherwise serving primary producers. These include equipment manufacturers and dealers, input providers, wholesalers, marketing firms and processors.

Alliances

Relationships established by contract between FCC and other agriculture or financial organizations designed to pool talents and offer expanded customer services.

Allowance for credit losses

Management's best estimate of credit losses incurred on a loan and lease receivable portfolio. Allowances are accounted for as deductions on the balance sheet from loans and leases receivable respectively.

Arrears

All amounts that are past due by more than $500 on a loan, including impaired loans.

Basis point

One hundredth of 1 per cent, used when describing applicable interest rates or the yield of an investment (1 bps = 0.01 per cent).

Corporate social responsibility (CSR)

A company's commitment to operating in an economically, socially and environmentally sustainable manner, while recognizing the interests of its stakeholders, including investors, customers, employees, business partners, local communities, the environment and society at large, as defined by Canadian Business for Social Responsibility.

Counterparty

The other party involved in a financial transaction, typically another financial institution.

Counterparty risk

The risk that the counterparty will not be able to meet its financial obligations under the terms of the contract or transaction into which it has entered.

Credit rating

A classification of credit risk based on the investigation of a company's financial resources, prior payment pattern and history of responsibility for debts incurred.

Crown Borrowing Program

Direct lending provided to the corporation by the federal government.

Customer support program

Plans developed to proactively assist customers who may experience loan repayment difficulties during downturns in a particular segment of the agriculture industry. Individual plans can include deferred payments or flexible repayment schedules.

Debt-to-equity ratio

The level of debt expressed as dollars of debt per one dollar of total equity, excluding accumulated other comprehensive income.

Derivative financial instrument

A financial instrument where value is based on and derived from an underlying price, interest rate, exchange rate or price index. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in interest rates and foreign exchange rates. Types of derivative contracts include interest rate swaps, interest rate options, currency swaps and forward contracts.

Effective interest rate method

A method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period.

Efficiency ratio

A measure of how well resources are used to generate income calculated as administration expense as a percentage of revenue. Revenue is composed of net interest income, net insurance income and other income.

Embedded derivative

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Enterprise

Specific type of agricultural operation (dairy, cash crops, beef, etc.).

Enterprise risk management (ERM)

The enterprise-wide application of co-ordinated activities that direct and control an organization with respect to risk.

Fair value

The amount an independent party would pay to purchase or sell a financial instrument in the marketplace. It can be estimated as the present value of cash flows, adjusted for risk.

Foreign exchange risk

The risk of financial loss due to adverse movements in foreign currencies.

Hedge

A risk management technique used to protect against adverse price, interest rate or foreign exchange movements through elimination or reduction of exposures by establishing offsetting or risk-mitigating positions.

Impaired loans

Loans where, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Any loan where a payment is 90 days past due is classified as impaired unless the loan is fully secured.

Interest and currency rate swaps

Contractual agreements for specified parties to exchange currencies or interest payments for a specified period of time based on notional principal amounts.

Interest expense

Expense to the corporation incurred on debt.

Interest income

Income earned on loans receivable, cash and investments.

Interest rate risk

The risk that a change in interest rates adversely impacts the corporation's net interest income and economic value.

Leverage

The relationship between total liabilities and the equity of a business.

Loan renewal rate

Percentage ratio of principal dollars renewed to principal dollars matured.

Market value of portfolio equity (MVPE)

The net present value of assets less liabilities. It is used to measure the sensitivity of the corporation's net economic worth to changes in interest rates.

Net disbursements

Disbursements represent the release of funds against approved loans. Net disbursements exclude the refinancing of existing FCC loans.

Net interest income (NII)

The difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

Net interest income margin

Net interest income expressed as a percentage of average total assets.

Notional amount

The amount considered as principal when calculating interest and other payments for derivative contracts. This amount traditionally does not change hands under the terms of the derivative contract.

Other comprehensive income (OCI)

Represents gains and losses due to changes in fair value that are temporarily recorded outside of net income in a section of the shareholder's equity called accumulated other comprehensive income (AOCI).

Prepayments

Prepayments are defined as unscheduled principal payments prior to interest term maturity.

Primary production financing

Refers to customers who have loans from FCC including agriculture operations that produce raw commodities such as crops, beef, pork, poultry, sheep and dairy, as well as fruits, vegetables and alternative livestock. These include, but are not limited to, vineyards, greenhouses, forestry (cultivation, growing and harvesting of trees), aquaculture (growing of fish, both ocean and inland) and part-time farming.

Provision for credit losses

Charged to the income statement by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management.

Return on equity (ROE)

Net income attributable to the shareholder of the parent entity expressed as a percentage of total average equity, excluding accumulated other comprehensive income.

Risk scoring and pricing system (RSPS)

A tool used to evaluate the type and potential impact of risks present in each loan or finance lease to ensure FCC is adequately compensated for the risk in its portfolio. The pricing component of RSPS calculates the risk price (risk adjustment), which is the portion of the loan margin required to cover the risk of loss.

Special Purpose Entity (SPE)

An entity that the corporation has created for a narrow and well-defined objective for which the corporation has rights to obtain the majority of the benefits and therefore may be exposed to risks incident to the activities of the SPE.

Value-added

Agriculture businesses on the input or output side of primary production that produce, transport, store, distribute, process or add value to agriculture commodities.

Variable interest entity

An entity that by design does not have sufficient equity at risk to permit it to finance its activities without additional subordinated financial support, or in which equity investors do not have the characteristics of a controlling financial interest.

Sources for agriculture facts and figures

We consulted online and print publications from the following sources to provide the facts about agriculture that you'll find on the inside front and back covers:

- Agriculture and Agri-Food Canada (www.agr.gc.ca)
- Canadian Association of Agri-Retailers (www.caar.org)
- Canadian Federation of Agriculture (www.cfa-fca.org)
- FCC Vision Panel (www.fccvision.ca)
- Johnson-Shoyama Graduate School of Public Policy (www.schoolofpublicpolicy.sk.ca)
- Government of Canada, Mission of Canada to the European Union (www.canadainternational.gc.ca/eu-ue)
- Statistics Canada (www.statcan.gc.ca)

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